Naturally Splendid Enterprises Ltd.

Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

HARBOURSIDE
CPA

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Naturally Splendid Enterprises Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Naturally Splendid Enterprises Ltd.(the "Company") which comprise the consolidated statement of financial position as at December 31, 2021.and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in cash flow, and the consolidated statement of changes in equity (deficiency) for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The consolidated financial statements of Naturally Splendid Enterprises Ltd. for the year ended December 31, 2020, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 30, 2021.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about Naturally Splendid Enterprises Ltd.'s
ability to continue as a going concern.

Information other than the Consolidated Financial Statements and the Auditor's Report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's discussion and analysis report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's discussion and analysis report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.
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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mickey Goldstein.

HARBOURSIDE CPA LLP

Vancouver, British Columbia
June 30, 2022

Harbourside CPA, LLP
Chartered Professional Accountants

Naturally Splendid Enterprises Ltd.
Consolidated Statements of Financial Position
As at December 31, 2021 and 2020
(Expressed in Canadian Dollars)

		2021		2020
ASSETS				
Current				
Cash	$	1,388,296	$	202,334
Trade and other receivables (Note 4)		50,056		350,699
Inventories (Note 5)		700,617		873,274
Advances, prepaids and deposit		149,386		72,397
		2,288,355		1,498,704
Long-term deposits		32,124		32,124
Restricted cash (Note 6)		34,500		34,500
Property and equipment (Notes 7 and 9)		1,892,818		2,432,552
Technology license and other intangibles (Note 8)		26,583		55,583
Total	**$**	**4,274,380**	**$**	**4,053,463**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)				
Liabilities				
Current				
Trade and other payables (Notes 10 and 11)	$	3,044,816	$	2,612,845
Government remittances		906,708		647,839
Loans from related parties (Note 11)		78,000		55,000
Current portion of lease liabilities (Note 9)		501,452		427,681
Short-term loans (Note 10)		183,333		200,000
Shareholder loan (Note 10)		32,000		-
		4,746,309		3,943,365
Lease liabilities (Note 9)		830,125		1,057,612
Total liabilities		5,576,434		5,000,977
Shareholders' equity (deficiency)				
Share capital (Note 13)		30,748,905		28,131,158
Subscriptions received in advance (receivable) (Note 13)		(197,509)		-
Share-based payment reserve (Note 13)		1,186,423		1,266,900
Warrant reserve (Note 13)		388,166		607,781
Deficit		(33,428,039)		(30,953,353)
Total shareholders' equity (deficiency)		(1,302,054)		(947,514)
Total	**$**	**4,274,380**	**$**	**4,053,463**

Nature of operations and going concern (Note 1)
Commitments (Note 14)
Contingent liabilities (Note 18)
Subsequent events (Note 21)

Approved on June 30, 2022 on behalf of the Board:

"Craig Goodwin"		*"George Ragogna"*	
Director	Director	Director	Director

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

Naturally Splendid Enterprises Ltd.
Consolidated of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
For the years ended December 31, 2021 and 2020

	2021	2020
Revenue	$ 763,796	$ 1,576,408
Cost of sales	681,615	1,460,279
Gross profit	**82,181**	**116,129**
Selling and distribution expenses		
Bad debts and inventory write-down (Notes 4 and 5)	214,282	258,899
Facility	422,546	790,853
Freight and delivery	34,492	55,326
Product development, net of grants	12,060	-
Product promotion, net of grants	30,430	169,271
	713,810	**1,274,349**
Administrative expenses		
Accounting and audit	78,000	101,555
Amortization and depreciation (Notes 7 and 8)	566,301	642,795
Bank charges and interest	171,307	132,382
Corporate promotion	104,503	455,569
Directors' fees (Note 11)	40,000	39,166
Interest on lease liabilities (Note 9)	134,206	157,828
Legal	81,061	75,105
Management and consulting fees (Note 11)	675,758	640,570
Office, rent and salaries	725,873	828,050
Share-based payments (Notes 11 and 13)	-	375,847
Transfer agent and filing fees	53,338	68,088
Travel	7,390	17,352
	2,637,737	**3,534,307**
Loss before other items	**(3,269,366)**	**(4,692,527)**
Other items		
Foreign exchange gain (loss)	(2,066)	860
Interest and other income	300	368
Gain on sale of equipment	5,068	31,657
Gain on settlement of debt (Notes 11 and 13)	109,382	-
Recovery of bad debt expense	14,751	-
Net loss and comprehensive loss for the year	**$ (3,141,931)**	**$ (4,659,642)**
Basic and diluted loss per common share	$ (0.01)	$ (0.03)
Weighted average shares outstanding	218,419,328	171,299,841

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

Naturally Splendid Enterprises Ltd.
Consolidated Statements of Changes in Cash Flow
(Expressed in Canadian Dollars)
For the years ended December 31, 2021 and 2020

	2021	2020
Operating activities		
Net loss for the year	$ (3,141,931)	$ (4,659,642)
Items not affecting cash:		
Amortization and depreciation	566,301	642,795
Shares issued for services	-	65,000
Interest on lease liabilities	134,206	157,828
Interest on short-term loan	-	24,801
Bad debts and inventory write-down	214,282	258,899
Share-based payments	-	375,847
Gain on sale of equipment	(5,068)	(31,657)
Gain on settlement of debt	(109,382)	-
	(2,341,592)	(3,166,129)
Changes in non-cash working capital:		
Trade and other receivables	227,482	21,727
Inventories	31,536	421,667
Advances, prepaids and deposits	(76,989)	217,628
Restricted cash	-	45,080
Trade and other payables	687,196	223,670
Government remittances	258,869	480,856
Cash used in operating activities	(1,213,498)	(1,755,501)
Investing activities		
Purchase of property and equipment	-	(123,501)
Purchase of intangible assets	-	(6,000)
Disposal of property and equipment	7,501	85,412
Cash provided by (used in) investing activities	7,501	(44,089)
Financing activities		
Lease payments	(287,922)	(284,824)
Proceeds on issuances of loans	55,000	300,000
Repayment of loan	(16,667)	-
Proceeds on share subscriptions received in advance	122,455	-
Proceeds on issuance of shares	1,830,551	1,827,263
Share issuance costs	(69,303)	(64,081)
Proceeds from options and warrants exercised	757,845	110,000
Cash provided by financing activities	2,391,959	1,888,358
Net change in cash	1,185,962	88,768
Cash, beginning of year	202,334	113,566
Cash, end of year	$ 1,388,296	$ 202,334

Supplemental Cash Flow Information (Note 17)

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

Naturally Splendid Enterprises Ltd.
Consolidated Statements of Changes in Equity (Deficiency)
(Expressed in Canadian Dollars)

	Common shares		Share capital		Subscriptions received in advance/(receivable)		Option reserves		Warrant reserves		Deficit		Total equity (deficiency)
Balance at December 31, 2019	**141,438,513**	**$**	**25,533,987**	**$**	**-**	**$**	**1,856,460**	**$**	**631,115**	**$**	**(27,303,468)**	**$**	**718,094**
Private placement	39,740,257		1,827,263		-		-		-		-		1,827,263
Finder's fee - cash	-		(26,710)		-		-		-		-		(26,710)
Finder's fee - warrants	-		(21,016)		-		-		21,016		-		-
Share issue costs	-		(37,371)		-		-		-		-		(37,371)
Shares issued for services	1,857,142		65,000		-		-		-		-		65,000
Shares for debt	19,131,095		680,005		-		-		-		-		680,005
Share-based payments	-		-		-		375,847		-		-		375,847
Options expired or forfeited	-		-		-		(965,407)		-		965,407		-
Warrants exercised	2,000,000		110,000		-		-		-		-		110,000
Warrants expired or cancelled	-		-		-		-		(44,350)		44,350		-
Net loss for the year	-		-		-		-		-		(4,659,642)		(4,659,642)
Balance at December 31, 2020	**204,167,007**	**$**	**28,131,158**	**$**	**-**	**$**	**1,266,900**	**$**	**607,781**	**$**	**(30,953,353)**	**$**	**(947,514)**
Private placement	71,683,846		1,792,096		(319,964)		-		358,419		-		1,830,551
Share issuance costs - cash	-		(69,303)		-		-		-		-		(69,303)
Share issuance costs - warrants	-		(8,734)		-		-		8,734		-		-
Subscriptions received in advance	-		-		122,455		-		-		-		122,455
Shares for debt	3,646,073		145,843		-		-		-		-		145,843
Warrants exercised	13,779,000		757,845		-		-		-		-		757,845
Warrants and options expired or cancelled	-		-		-		(80,477)		(586,768)		667,245		-
Net loss for the year	-		-		-		-		-		(3,141,931)		(3,141,931)
Balance at December 31, 2021	**293,275,926**	**$**	**30,748,905**	**$**	**(197,509)**	**$**	**1,186,423**	**$**	**388,166**	**$**	**(33,428,039)**	**$**	**(1,302,054)**

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

1. Nature of Operations and Going Concern

Naturally Splendid Enterprises Ltd. ("Naturally Splendid" or the "Company") was incorporated under the laws of the province of British Columbia on December 21, 2010.

The Company is in the natural food industry and sells food and ingredients to commercial processors and consumers by distribution through grocery stores, health and nutrition stores and online. Materials are sourced in bulk and repackaged at the Company's facility with its unique branding under the Company's name. Current products are hemp-based food items that are both conventional and organic, including whole grains and protein powders. Product sales are supported through a combination of direct and online sales and distribution channels.

The head office, principal address, and registered and records office is located at 108-19100 Airport Way Pitt Meadows, British Columbia, Canada V3Y 0E2.

The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the year ended December 31, 2021, the Company had a net loss and comprehensive loss of $3,141,931 (2020 - $4,659,642) and working capital deficit of $2,457,954 (2020 - $2,444,661). The Company remains reliant on external sources of financing to fund operations and meet the Company's obligations.

Management cannot provide assurance that the Company will ultimately achieve profitable operations or positive cash flow. The Company's continuation as a going concern is dependent on its ability to attain profitable operations and raise additional capital. These matters indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and the consolidated statement of financial position classifications that would be necessary if the going concern assumption was inappropriate. Such adjustments could be material.

Since March 2020, COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. The Company's production processes were halted during government-imposed lockdowns, resulting in decline in sales. The full extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak. There can be no assurance that the Company will not be further impacted by adverse consequences that may be brought about by the COVID-19 pandemic on global financial markets which may reduce share prices and financial liquidity, thereby severely limiting the financing capital available.

During the year ended December 31, 2020, the Canadian government offered the Canada Emergency Wage Subsidy ("CEWS") to assist businesses that were impacted by COVID-19. The Company was eligible to receive the federal government assistance and received $469,154 from January 1 to December 31, 2021 (2020 - $496,062 from April 1 to December 31, 2020).

2. Basis of Presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on the date noted on the consolidated statements of financial position.

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in Note 12. These consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries' functional currency. These consolidated financial statements include the accounts of the following entities:

	Relationship	Percentage
Naturally Splendid Enterprises Ltd.	Parent	100%
Naturally Splendid Enterprises 2013 Ltd.	Subsidiary	100%
Naturally Splendid Extracts Ltd. ("Extracts")	Subsidiary	100%
Naturally Splendid USA Ltd.	Subsidiary	100%
Chi Hemp Industries Inc. ("Chi")	Subsidiary	100%
Prosnack Natural Foods Inc. ("Prosnack")	Subsidiary	100%
Naturally Splendid Hemp Processors Ltd. ("NSHP")	Subsidiary	100%

All the entities above are incorporated in Canada, with the exception of Naturally Splendid USA Ltd., which is incorporated in the United States of America. The consolidated financial statements include the operating results of subsidiaries from the date of acquisition. All intercompany balances and transactions are eliminated on consolidation. Control is based on whether an investor has power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of returns.

3. Significant Accounting Policies

a) Inventories

Inventories are stated at the lower of production cost and net realizable value. Production costs include direct and indirect labour, operating materials and supplies, transportation costs, and an appropriate portion of fixed and variable overhead expenses. Inventories are accounted for on a first-in, first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

3. Significant Accounting Policies (Continued)

b) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write-off the cost of property and equipment, less their estimated residual value, using the declining-balance or straight-line method at the following annual rates:

Computer equipment	55% declining-balance
Computer software	30% declining-balance
Furniture and equipment	20% declining-balance
Manufacturing facility	Straight-line over the lease term of 8-10 years
Leasehold improvements	Straight-line over 5 years
Manufacturing equipment	20% declining-balance
Vehicle	Straight-line over 1 year

The manufacturing facility includes the Company's operating premise leases which were capitalized in accordance with IFRS 16 *Leases* ("IFRS 16") (Note 9). These leases are depreciated over the term of the lease agreements.

Property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

c) Revenue recognition

The Company generates its revenue from sales to retailers, online web sales, bulk sales, and co-packing revenues. Revenues from the sale of goods via retailers, online web sales, bulk sales and co-packing have a single performance obligation and are recognized at the point in time when control transfers and the obligation has been fulfilled, which is upon shipment to the customer. The amount of revenue recognized is based on a contractual price and is recorded net of sales discounts, if any.

d) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued at the grant date and recognized over the vesting periods using the graded vesting method. Share-based payments to non-employees are measured at the fair value of goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based expense is measured at the fair value of the equity instruments issued. For both employees and non-employees, the fair value of share-based expense is measured using the Black-Scholes option pricing model and is recognized in profit or loss, with a corresponding increase in reserves. When options expire unexercised or are cancelled, these amounts are reclassified into deficit.

3. Significant Accounting Policies (Continued)

e) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. The calculation of diluted earnings per share assumes that outstanding options and warrants are exercised, and the proceeds are used to repurchase shares of the Company at the average market price of the shares for the period. Diluted loss per share is not presented if the effects are anti-dilutive.

f) Accounting for equity units

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares, and any excess is allocated to warrants. Share issue costs are deducted against share proceeds.

g) Research and development

Research costs are expensed as incurred. Product development expenditures are expensed as incurred until such time that they meet certain specific criteria for deferral and amortization. Management assesses whether it has met such criteria at each reporting date. In making the assessment, management considers the status of the product development, regulatory submissions, marketing and finance plans. The Company has not deferred any product development expenditures to date. Research and development expenses are included in product promotion costs under selling and distribution expenses.

h) Technology license and other intangibles

Intangible assets acquired are recorded at cost less accumulated amortization and any impairment losses. Intangible assets are assessed for indicators of impairment at each reporting date or more frequently if changes in circumstances indicate that the carrying value may be impaired. In addition to impairment indicator assessments, indefinite life intangibles must be tested annually for impairment. Amortization for intangible assets with finite lives is calculated on a straight-line basis over the life of the asset less its residual value. The Company's amortization policy for intangible assets with finite lives is as follows:

Technology License – 15 years
Non-compete clauses – 2 years
Licensed IP – 10 years
Brands and trademarks – 5 years
Customer lists – 5 years

3. Significant Accounting Policies (Continued)

i) Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset (the ROU), the Company assesses whether the contract involves the use of an identified asset, either explicitly or implicitly, including consideration of supplier substitution rights, the Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and whether the Company has the right to direct the use of the asset.

The Company applies the exemption not to recognize right-of-use assets and lease liabilities for leases relating to low-value assets. The ROU asset is initially measured based on the initial amount of the lease liability plus any initial direct costs incurred less any lease incentives received. The ROU asset is depreciated to the end-of-the-useful-life or the lease term, whichever comes earlier, using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise the option. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and remeasured when there is a change in future lease payments.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

j) Government Assistance

Government assistance, including government assistance under federal COVID-19 response programs, is recorded as a reduction to administrative salaries, fees and benefits as they are received, provided there is reasonable assurance that the assistance will not be repayable; otherwise, they are recorded as a liability.

k) Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the revision affects both current and future periods.

3. Significant Accounting Policies (Continued)

Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year and include, but are not limited to, the following:

Recoverability of receivables

Provisions are made against accounts that, in the estimation of management, may be uncollectible. The recoverability assessment of trade and other receivables is based on a range of factors, including the age of the receivable and the creditworthiness of the customer. The provision is assessed monthly, with a detailed formal review of balances and security being conducted annually. Determining the recoverability of an account involves estimation and judgment as to the likely financial condition of the customer and their ability to subsequently make payments. To the extent that future events impact the financial condition of the customers, these provisions could vary significantly.

Valuation of inventory

Management makes estimates of future customer demand for products when establishing appropriate provisions for inventory obsolescence. In making these estimates, management considers the shelf-life of inventory and the profitability of recent sales.

Useful lives of property, equipment and intangibles

Depreciation and amortization of the Company's equipment and intangible assets incorporate estimates of useful lives and residual values. These estimates may change as market conditions change and the future economic benefits from the use of the asset changes, thereby impacting the useful life and residual value of the equipment or intangible asset. Any revisions to useful life are accounted for prospectively.

Share-based payments

The fair value of share-based payments is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. As the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the expected volatility of the Company’s share prices and expected forfeiture rates, changes in subjective input assumptions can materially affect the fair value estimate.

Leases

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as store profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment of the lease term is reviewed if a significant event or a significant change in circumstance occurs, which affects this assessment and that is within the control of the lessee. The Company estimates the incremental borrowing rate used to measure our lease liability for each lease contract. This includes estimation in determining the asset-specific security impact.

3. Significant Accounting Policies (Continued)

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

Recovery of deferred tax assets

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its tax assets and liabilities and applies tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

Determination of cash-generating units (“CGU”)

CGUs are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash flows of other assets or groups of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users and the way in which management monitors the Company’s operations.

Impairment of property and equipment, technology license and other intangibles and goodwill

Judgment is required in determining whether property and equipment, technology license and other intangibles have indicators of impairment. Determining the amount of impairment of property and equipment, technology license, and other intangibles and goodwill requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments.

Going concern

The assessment of the Company’s ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including the expectation of future events that are believed to be reasonable under the circumstances.

Application of IFRS 16

The Company applies judgment in determining whether the contract contains an identified asset, whether the Company has the right to control the asset, the lease term and an appropriate discount rate. The lease term is based on considering facts and circumstances, both qualitative and quantitative, that can create economic incentive to exercise renewal options.

3. Significant Accounting Policies (Continued)

Determination of functional currency

The functional currency is the currency of the primary economic environment in which an entity operates and has been determined for each entity within the Company. The functional currency for the Company and its subsidiaries has been determined to be the Canadian dollar.

l) Income taxes

Deferred tax is calculated on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognized for all temporary taxable differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those temporary deductible differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities, and the deferred income taxes relate to the same taxable entity and the same taxation authority.

m) Impairment of non-financial assets

The carrying amount of the Company's assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization if no impairment loss had been recognized.

3. Significant Accounting Policies (Continued)

n) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows.

o) Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange in effect at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All exchange differences are recorded in profit and loss.

p) Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

The following is the Company's accounting policy for financial instruments under IFRS 9:

<u>Classification</u>

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

The Company's financial assets and liabilities are classified as follows:

Asset or Liability	**Classification**
Cash	FVTPL
Restricted cash	FVTPL
Advances and deposits	Amortized cost
Trade and other receivables	Amortized cost
Trade and other payables	Amortized cost
Loan from related party	Amortized cost
Short-term loans	Amortized cost
Lease liabilities	Amortized cost

3. Significant Accounting Policies (Continued)

Measurement

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

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise.

Debt investments at FVOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

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

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (Continued)

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are generally recognized in profit or loss.

Fair value hierarchy

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

4. Trade and Other Receivables

The Company's trade and other receivables arise from two main sources: trade receivables due from customers and Goods and Services Tax/Harmonized Sales Tax ("GST/HST") due from the government authorities. These are as follows:

	December 31, 2021	**December 31, 2020**
GST/HST receivable	$ 42,078	$ 61,983
Trade receivables	7,978	288,716
	$ 50,056	**$ 350,699**

Included in trade receivables is an allowance for uncollectible accounts as at the year ended December 31, 2021 of $74,041 (2020 - $34,328). The Company recorded a recovery of bad debt from the prior year of $14,751, which was collected during the year ended December 31, 2021.

(Expressed in Canadian Dollars)

5. Inventories

	December 31, 2021	December 31, 2020
Finished products for resale	$ 434,298	$ 427,924
Raw materials	29,486	185,933
Containers, labels and packing materials	236,833	259,417
	$ 700,617	**$ 873,274**

During the year ended December 31, 2021, the Company recorded a write-down to inventory of $141,121 (2020 - $220,466) relating to expired goods and estimated net realizable value of inventories being lower than cost.

6. Restricted Cash

The Company has deposited funds in interest-bearing term deposits with its principal banker as security against corporate credit cards. As at December 31, 2021 and 2020, the amount of these deposits is $34,500.

(Expressed in Canadian Dollars)

7. Property and Equipment

The changes in the Company's property and equipment for the years ended December 31, 2021 and 2020 are as follows:

	Computer equipment and software	Furniture and equipment	Manufacturing facility and leasehold improvements	Manufacturing equipment	Vehicle	Total
Cost						
December 31, 2019	**$ 105,047**	**$ 308,916**	**$ 1,988,661**	**$ 1,855,994**	**$ 9,576**	**$ 4,268,194**
Additions	-	-	-	19,299	-	19,299
Reclassification from asset held for sale	-	-	-	410,544	-	410,544
Disposition	-	-	-	(224,143)	-	(224,143)
December 31, 2020	**$ 105,047**	**$ 308,916**	**$ 1,988,661**	**$ 2,061,694**	**$ 9,576**	**$ 4,473,894**
Additions	-	-	-	-	-	-
Disposition	-	-	-	(19,777)	(9,576)	(29,353)
December 31, 2021	**$ 105,047**	**$ 308,916**	**$ 1,988,661**	**$ 2,041,917**	**$ -**	**4,444,541**
Depreciation						
December 31, 2019	**$ 97,841**	**$ 144,636**	**$ 346,436**	**$ 808,902**	**$ 9,576**	**$ 1,407,391**
Additions	4,073	29,764	304,296	269,662	-	607,795
Reclassification from asset held for sale	-	-	-	196,544	-	196,544
Disposition	-	-	-	(170,388)	-	(170,388)
December 31, 2020	**$ 101,914**	**$ 174,400**	**$ 650,732**	**$ 1,104,720**	**$ 9,576**	**$ 2,041,342**
Additions	1,833	23,811	304,296	207,361	-	537,301
Disposition	-	-	-	(17,344)	(9,576)	(26,920)
December 31, 2021	**$ 103,747**	**$ 198,211**	**$ 955,028**	**$ 1,294,737**	**$ -**	**$ 2,551,723**
Net Book Value						
December 31, 2020	**$ 3,133**	**$ 134,516**	**$ 1,337,929**	**$ 956,974**	**$ -**	**$ 2,432,552**
December 31, 2021	**$ 1,300**	**$ 110,705**	**$ 1,033,633**	**$ 747,180**	**$ -**	**$ 1,892,818**

Included within the manufacturing facility are the right-of-use assets recognized for the Company's operating premise leases. Included within manufacturing equipment are food packaging and production equipment under lease (Note 9).

(Expressed in Canadian Dollars)

7. Property and Equipment (Continued)

Depreciation expense recognized for the operating premise lease for the year ended December 31, 2021, was $178,420 (2020 - $178,420). The net carrying value of the operating premise lease as at December 31, 2021, was $817,760 (2020 - $996,181).

Depreciation expense recognized for food packaging and production equipment leases for the year ended December 31, 2021, was $114,965 (2020 - $136,149). The net carrying value of food packaging and production equipment leases as at December 31, 2021, was $99,001 (2020 - $213,966).

During the year ended December 31, 2019, management made the decision to sell the manufacturing equipment acquired through the acquisition of NSHP in fiscal 2018. Management estimated the recoverable value based on a fair value less cost of disposal approach to be $214,000. Accordingly, during the year ended December 31, 2019, the Company recognized an impairment expense of $407,088 to decrease the carrying value of the manufacturing equipment to its estimated recoverable value. The fair value measurement is categorized within Level 3 of the fair value hierarchy. The remaining value of this equipment of $214,000 was reclassified as an asset held for sale. Of this amount, $21,184 relates to an asset under lease. The remaining lease liability of $22,845 is included in the current portion of lease liabilities on the consolidated statements of financial position as at December 31, 2019. During the year ended December 31, 2020, management made the decision not to proceed with the sale of the manufacturing equipment. The estimated value of the equipment of $214,000 was reclassified from asset held for sale to property and equipment in manufacturing equipment.

8. Technology License and Other Intangibles

The changes in the Company's technology license and other intangibles for the years ended December 31, 2021 and 2020 are as follows:

	Technology License	Non-compete Clauses	Licensed IP	Brands & Trademarks	Customer Lists	Total
Cost						
December 31, 2019	**$ 1,486,425**	**$ 40,926**	**$ 200,000**	**$ 145,000**	**$ 256,000**	**$ 2,128,351**
Additions	-	-	-	6,000	-	6,000
December 31, 2020 and 2021	**$ 1,486,425**	**$ 40,926**	**$ 200,000**	**$ 151,000**	**$ 256,000**	**$ 2,134,351**
Amortization						
December 31, 2019	**$ 1,486,425**	**$ 40,926**	**$ 200,000**	**$ 60,417**	**$ 256,000**	**$ 2,043,768**
Additions	-	-	-	35,000	-	35,000
December 31, 2020	**$ 1,486,425**	**$ 40,926**	**$ 200,000**	**$ 95,417**	**$ 256,000**	**$ 2,078,768**
Additions	-	-	-	29,000	-	29,000
December 31, 2021	**$ 1,486,425**	**$ 40,926**	**$ 200,000**	**$ 124,417**	**$ 256,000**	**$ 2,107,768**
Net Book Value						
December 31, 2020	**$ -**	**$ -**	**$ -**	**$ 55,583**	**$ -**	**$ 55,583**
December 31, 2021	**$ -**	**$ -**	**$ -**	**$ 26,583**	**$ -**	**$ 26,583**

Brands and Trademarks

Brands and Trademarks were acquired together with the acquisition of Prosnack in 2017.

During the year ended December 31, 2020, the Company acquired the Woods Wild Bar brand and bar recipe at a fair value of $6,000.

(Expressed in Canadian Dollars)

9. Leases

The following is the continuity of lease liabilities as at and for the years ended December 31, 2021 and 2020:

		Equipment Leases		Operating Premise Lease		Total
Balance, December 31, 2019	$	369,502	$	1,242,787	$	1,612,289
Lease payments		(17,067)		(267,757)		(284,824)
Interest on lease liabilities		15,398		142,430		157,828
Balance, December 31, 2020	**$**	**367,833**	**$**	**1,117,460**	**$**	**1,485,293**
Lease payments		(17,068)		(270,854)		(287,922)
Interest on lease liabilities		7,865		126,341		134,206
Balance, December 31, 2021	**$**	**358,630**	**$**	**972,947**		**1,331,577**
Current portion	$	335,968	$	165,484		501,452
Long-term portion		22,662		807,463		830,125
Total	**$**	**358,630**	**$**	**972,947**		**1,331,577**

Equipment Leases

The Company has various lease contracts outstanding for food packaging equipment and production equipment. Following the final lease payments, the Company will own the equipment free and clear of all encumbrances. The aggregate interest expense recognized for these lease contracts is $7,865 (2020 - $15,398). These assets are included within manufacturing equipment under property and equipment on the consolidated statements of financial position.

As at December 31, 2021, the Company has the following three lease contracts for food packaging and production equipment:

(a) Food packaging equipment – monthly lease payments of $9,765 (including GST) until May 2022;
(b) Food production equipment acquired from NHSP – monthly lease payments of $3,141 (including GST) until September 2020, of which $22,845 remains unpaid;
(c) Food packaging equipment – monthly lease payments of $851 (including GST) until March 22, 2024; and
(d) Food packaging equipment – monthly lease payments of $643 (including GST) until August 2024.

Subsequent to the year ended December 31, 2021, the Company amended its lease agreement with the lessor on the food packaging equipment (Note 21).

(Expressed in Canadian Dollars)

9. Lease (continued)

Annual payments are due as follows:

	December 31, 2021
Within 1 year	$ 337,754
Within 2 - 5 years	24,215
	$ 361,969

Operating Premise Leases

The Company has three leases for contiguous space. The leases were entered in August 2016, December 2017 and October 2018. The combined basic rent is payable monthly in advance at a rate of $13,497 per month plus the proportionate share of expenses in respect of operating costs and property taxes, currently amounting to $7,823 per month.

The Company recognized right-of-use assets for its operating premise leases (Note 3). The aggregate interest expense recognized for these lease contracts is $126,341 (2020 – $142,430). These assets are included within manufacturing facility under property and equipment on the consolidated statements of financial position.

Annual payments are due as follows:

	December 31, 2021
Within 1 year	$ 273,366
Within 2 - 5 years	998,348
	$ 1,271,714

(Expressed in Canadian Dollars)

10. Short-Term Loans

During the year ended December 31, 2020, Sky High Metals Inc. loaned $200,000 to the Company as an unsecured, due-on-demand loan with interest at 12.5% per annum commencing August 31, 2020 with a maturity date August 31, 2021. This loan has been personally guaranteed by the CEO and the CFO of the Company. During the year ended December 31, 2021, the Company incurred interest expense of $16,668 (2020 - $8,332) on this short-term loan. During the year ended December 31, 2021, the Company made a payment on this loan of $25,000, of which $8,333 was applied to the interest owing, and $16,667 was applied to the principal balance. As at December 31, 2021, the principal loan balance was $183,333, and the interest payable was $16,667, which is included in accrued liabilities.

During the year ended December 31, 2021, a shareholder advanced $32,000 in total to the Company as an unsecured, due-on-demand loan with no interest.

During the year ended December 31, 2019, a shareholder advanced $500,000 to the Company as an unsecured, due-on-demand loan with interest at 6% per annum. During the year ended December 31, 2020, the Company incurred interest expense of $11,260 on this short-term loan and the outstanding interest and loan balance of $530,005 was settled by issuing shares for debt (Note 13).

During the years ended December 31, 2019 and 2020, a shareholder advanced $125,000 in total to the Company as a secured, due-on-demand loan with interest at 10% per annum commencing February 2020 with a maturity date of February 18, 2021. During the year ended December 31, 2020, the Company incurred interest expense of $5,209 on this short-term loan, which is included in trade and other payable, and the outstanding loan principal balance of $125,000 was settled by issuing shares for debt (Note 13).

11. Key Management Compensation and Related Party Transactions

Key management compensation

	December 31, 2021	December 31, 2020
Management fees	$ 478,750	$ 469,417
Consulting fees	173,400	65,000
Directors' fees	40,000	39,166
Share-based payments	-	272,110
	$ 692,150	**$ 845,693**

i) Management fees of $180,000 (2020 – $180,000) were accrued and no stock options (2020 – 3,000,000 stock options at $0.10 vested immediately with an estimated fair value of $117,452) were granted to 1105953 B.C. Ltd., a company controlled by the Company's Chief Executive Officer.

ii) Management fees of $180,000 (2020 – $180,000) were accrued and no stock options (2020 – 3,000,000 stock options at $0.10 vested immediately with an estimated fair value of $117,452) were granted to Kal-Mad Enterprises Ltd., a company controlled by the Company's Vice President of Operations and Chief Financial Officer.

iii) Management fee of $118,750 (December 31, 2020 - $109,417) were accrued and no stock options (2020 – 250,000 stock options at $0.10 vested immediately with an estimated fair value of $9,800) were granted to the Company's Director of Sales.

(Expressed in Canadian Dollars)

11. Key Management Compensation and Related Party Transactions (Continued)

iv) Consulting fees of $65,000 (2020 – $65,000) were accrued, and no stock options (2020 – 500,000 stock options at $0.10 vested immediately with an estimated fair value of $19,576) were granted to the Chairman of the Board of Directors for monthly consulting services.

v) On February 1, 2021, Alastair Gregor was appointed as Executive Chef. Consulting fees of $39,900 (2020 - $nil) were accrued.

vi) On March 26, 2021, the Company appointed Kris Tarr as VP of Ecommerce. Consulting fees of $68,500 (2020 – $nil) were for services rendered during the year.

vii) Director fees for Larry Gilmour of $10,000 (2020 - $1,667) were accrued and no stock options (2020 - 200,000 stock options at $0.10 vested immediately with an estimated fair value of $7,830) were granted.

viii) Fees accrued to other directors of the Company amount to $30,000 (2020 - $37,499).

During the year ended December 31, 2021, a total of 1,237,617 common shares with a fair value of $49,505 were issued to settle amounts owing to related parties of $86,633, resulting in a gain in settlement of related party debt of $37,128.

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the years ended December 31, 2021 and 2020.

Related party liabilities

The following amounts are included in accounts payable and accrued liabilities as at December 31, 2021 and 2020:

Amounts due to:		**December 31, 2021**		**December 31, 2020**
1105953 BC Ltd.	$	240,508	$	125,503
Kal-Mad Enterprises Ltd.		128,935		4,159
Agrinomics I.T. Consulting Ltd.		100,163		96,170
George Ragogna, Consultant & Chairman		54,563		22,407
Craig Goodwin, CEO & Director		10,783		-
Directors		7,167		21,571
Director of Sales		259		-
VP of Ecommerce		55,634		-
Executive Chef		25,095		-
Sead Hamzagic		1,963		-
Total related party payables	**$**	**625,070**	**$**	**269,810**

As at December 31, 2021, $55,000 (2020 – $55,000) is due to the CEO, of the Company for a non-interest-bearing, short-term loan.

As at December 31, 2021, $23,000 (2020 – $nil) is due to the CFO, and chairman of the Company for a non-interest-bearing, short-term loan.

(Expressed in Canadian Dollars)

12. Financial Instruments

a) Categories of financial instruments

Financial Assets	Fair Value Hierarchy	December 31, 2021	December 31, 2020
Fair value through profit or loss, at fair value			
Cash	Level 1	$ 1,388,296	$ 202,334
Restricted cash	Level 1	34,500	34,500
Loans and receivables, at amortized cost			
Trade and other receivables		7,978	288,716
Advances and deposits		149,386	72,397
		$ 1,580,160	**$ 597,947**

Financial Liabilities	Fair Value Hierarchy	December 31, 2021	December 31, 2020
Other liabilities, at amortized cost			
Trade and other payables		3,044,816	2,612,845
Loans from related parties		78,000	55,000
Short-term loans		183,333	200,000
Shareholder loan		32,000	-
Lease liabilities		1,331,578	1,485,293
		$ 4,669,726	**$ 4,353,138**

b) Fair value

The fair value recorded on initial recognition of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The carrying value of cash, trade and other payables, loan from related party and short-term loans approximate their fair value due the short-term maturity of these instruments.

c) Management of financial risks

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of these risks. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner. The risks associated with these consolidated financial instruments and the policies on how to mitigate these risks are set out below.

(Expressed in Canadian Dollars)

12. Financial Instruments (Continued)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash, trade and other receivables, and restricted cash. The Company deposits cash with major Canadian commercial banks. In order to reduce its credit risk in relation to trade receivables, the Company has adopted credit policies that include the analysis of the financial position of its customers and the regular review of their respective credit limits.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company is reliant upon equity issuances and loans as its main sources of cash. The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company continuously reviews its actual expenditures, forecasts cash flows and matches the maturity dates of its cash to capital and operating needs. The Company's trade and other payables are due within 90 days of December 31, 2021, loan from related party and short-term loans are due on demand. The Company's lease liabilities have payments due in accordance with the lease agreements (Note 9).

The Company has been successful in raising financing in the past; however, there is no assurance that it will be able to do so in the future. As at December 31, 2021, the Company had a working capital deficit of $2,457,954 (2020 – $2,444,661).

Currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. A significant change in the exchange rate between the Canadian dollar relative to the US dollar could have an effect on the Company's future results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. As at December 31, 2021 and 2020, the Company is exposed to currency risk through the following financial instruments denominated in a currency other than the Canadian dollar:

	December 31, 2021			**December 31, 2020**		
	US $	AUD $	CDN $	US $	AUD $	CDN $
Cash	666	-	846	42,012	-	53,527
Trade receivables	330	-	420	436	-	555
Accounts payable and accrued liabilities	184,998	188,491	408,680	219,717	38,601	318,540

Based on the above, assuming all other variables remain constant, a 5% strengthening or weakening of the Canadian dollar against the US dollar would have decreased/increased the Company's loss and comprehensive loss by $9,300. A 5% strengthening or weakening of the Canadian dollar against the AUD dollar would have decreased/increased the Company's loss and comprehensive loss by $9,425.

12. Financial Instruments (Continued)

Other risk

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or other risk. The Company does not hold or issue financial instruments for trading purposes, nor does it utilize derivative instruments in the management of foreign currency, commodity price or interest rate market risks.

13. Share Capital

a) Authorized

Unlimited number of common shares and preferred shares without par value.

b) Issued and outstanding

The total issued, and outstanding share capital consists of 293,275,926 common shares without par value.

During the year ended December 31, 2021, the Company completed the following transactions:

- 13,779,000 warrants at $0.055 were exercised for total gross proceeds of $757,845.
- On December 23, 2021, the Company closed a non-brokered private placement (the "Offering") to issue 71,683,846 units (each a "Unit") at a price of $0.03 per Unit for total gross proceeds of $2,150,515. Each Unit comprised of one common share and one common share purchase warrant ("Warrant"), with each Warrant entitling the holder to purchase one additional common share at $0.05 per share for a period of two years from the date of the issue. The fair value of the Warrants was determined to be $358,419 using the residual value method, with $1,792,096 being the fair value of the shares. $319,964 relating the Offering was received subsequent to year end.
- 3,646,073 shares valued at $145,843 were issued to settle debt of $255,225, resulting in a gain on settlement of debt of $109,382.
- Share issuance costs consisting of cash costs of $69,303 were incurred, and 595,000 finders' warrants with a fair value of $8,734 were issued were issued in connection to the financings.

During the year ended December 31, 2020, the Company completed the following transactions:

- 2,000,000 warrants at $0.055 were exercised for total gross proceeds of $110,000.
- 17,870,835 units at $0.06 for total gross proceeds and debt settlement of $1,072,250. Each unit is comprised of one common share and one-half common share purchase warrants, where each warrant is exercisable at $0.10 for a period of two years. There was no value allocated to the warrants under the residual method.
- 42,857,659 units at $0.035 for total gross proceeds and debt settlement of $1,500,000. Each unit is comprised of one common share and one common share purchase warrants, where each warrant is exercisable at $0.055 for a period of two years. There was no value allocated to the warrants under the residual method.
- Of the 60,728,494 units issued, the Company settled loans and trade payables of $680,005 with 19,131,095 units and issued 1,857,142 units of $65,000 for services (Note 10).
- Share issuance costs consisting of $37,371, 674,667 finders' warrants with a fair value of $21,016 and finders' fees of $26,710 were paid during the year for the closing of financings.

(Expressed in Canadian Dollars)

13. Share Capital (Continued)

c) Options and share-based payments

The following is a summary of changes in stock options for the years ended December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding, beginning of year	14,205,000	$ 0.24	8,640,000	$ 0.26
Granted	-	$ -	9,600,000	$ 0.10
Expired	-	$ -	(1,295,000)	$ 0.40
Forfeited	-	$ -	(2,740,000)	$ 0.23
Total outstanding and exercisable, end of year	**14,205,000**	**$ 0.24**	**14,205,000**	**$ 0.24**

The following are the outstanding stock options as of December 31, 2021 and 2020:

Expiry date	**Number of options outstanding December 31, 2021**	**Number of options outstanding December 31, 2020**	**Weighted average exercise price**	**Weighted average remaining contractual life in years December 31, 2021**	**Weighted average remaining contractual life in years December 31, 2020**
January 27, 2022	1,290,000	1,290,000	$0.350	0.07	1.07
November 27, 2022	190,000	190,000	$0.250	0.91	1.90
January 7, 2023	585,000	585,000	$0.310	1.02	2.02
January 31, 2023	30,000	30,000	$0.350	1.08	2.08
February 21, 2023	150,000	150,000	$0.300	1.14	2.14
February 28, 2023	40,000	40,000	$0.265	1.16	2.16
July 11, 2023	60,000	60,000	$0.180	1.53	2.53
September 17, 2023	1,890,000	1,890,000	$0.150	1.71	2.71
February 4, 2024	60,000	60,000	$0.150	2.10	3.10
February 6, 2024	60,000	60,000	$0.150	2.10	3.10
June 24, 2024	250,000	250,000	$0.150	2.48	3.48
October 25, 2025	9,600,000	9,600,000	$0.100	3.82	4.82
	14,205,000	**14,205,000**		**2.96**	**3.96**

During the year months ended December 31, 2021, the Company recognized share-based payments expense of $nil (2020 – $375,847), of stock options granted during the year.

(Expressed in Canadian Dollars)

13. **Share Capital** (Continued)

The fair value of each option granted was estimated as at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2021		**December 31, 2020**
Risk-free interest rate	N/A		0.37%
Expected life (years)	N/A		5.0
Annualized volatility	N/A		109.88%
Expected dividends	N/A		-
Exercise price	N/A	$	0.10
Fair value	N/A	$	0.04

d) Warrants

A summary of the Company's warrants for the year ended December 31, 2021 and December 31, 2020 is as follows:

	December 31, 2021			**December 31, 2020**		
	Number of warrants	**Weighted average exercise price**		**Number of warrants**	**Weighted average exercise price**	
Outstanding, beginning of year	79,650,392	$	0.06	31,164,963	$	0.16
Issued	72,278,846	$	0.05	52,259,410	$	0.06
Exercised	(13,779,000)	$	0.06	(2,000,000)	$	0.06
Cancelled/ expired	(29,390,982)	$	0.15	(1,773,981)	$	0.27
Total outstanding, end of year	**108,759,256**	$	**0.05**	**79,650,392**	**$**	**0.06**

(Expressed in Canadian Dollars)

13. Share Capital (Continued)

The following are the outstanding warrants as at December 31, 2021 and 2020:

	Outstanding warrants December 31, 2021	Outstanding warrants December 31, 2020	Exercise price	Expiry date
Common share purchase warrants	-	3,691,321	$0.21	April 17, 2021
	-	908,565	$0.21	April 30, 2021
	-	1,290,713	$0.21	June 7, 2021
	-	3,009,793	$0.21	September 6, 2021
	-	18,990,292	$0.20	September 27, 2021
	-	178,571	$0.22	October 13, 2021
	-	190,404	$0.22	November 1, 2021
	27,078,659	40,857,659	$0.06	June 5, 2022
	8,727,084	8,727,084	$0.06	September 25, 2022
	71,683,846	-	$0.05	December 20, 2023
Agent warrants	-	249,200	$0.21	April 17, 2021
	-	120,800	$0.21	April 30, 2021
	-	142,000	$0.21	June 7, 2021
	-	10,500	$0.21	September 6, 2021
	-	608,823	$0.12	September 27, 2021
	550,800	550,800	$0.06	June 5, 2022
	123,867	123,867	$0.06	September 25, 2022
	595,000	-	$0.05	December 20, 2023
	108,759,256	**79,650,392**		

The fair value of finders' warrants issued was estimated as at private placement closing date using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2021	December 31, 2020
Risk-free interest rate	0.93%	0.33%
Expected life (years)	2.0	2.0
Annualized volatility	145.61%	123.95%
Expected dividends	-	-
Exercise price	$0.05	$0.07
Fair value	$0.03	$0.03

14. Commitments

On September 1, 2020, the Company entered into a Joint Venture Agreement (“JV Agreement”) with Biologic Publishing Inc. (“Biologic”) to form a joint venture for the purpose of further developing and pursuing phase 2 clinical studies, utilizing one of Biologic’s patented technologies as a candidate for the potential COVID-19 treatment.

The Company will own 16% of the joint venture and Biologic will own 82% of the joint venture with the remaining 2% ownership assigned to key personnel within Biologic at their discretion.

The Company will invest $500,000 into the joint venture for the purposes of preparing documentation for submission to Health Canada and/or the United States Food and Drug Administration for a clinical trial as well as conducting a parallel in-vitro study in conjunction with a clinical study conducted by Health Canada. The Company will earn into the 16% ownership of the joint venture upon payment of the $500,000, to be made in five equal tranches as follows:
$100,000 by December 15, 2020 *(not met)*
$100,000 by January 15, 2021*(not met)*
$100,000 by February 15, 2021 *(not met)*
$100,000 by March 15, 2021; and *(not met)*
$100,000 by April 30, 2021 *(not met)*.

The Company shall issue 350,000 common shares to Biologic and 500,000 stock options individuals of Biologic and a consultant of the Company on closing of the JV Agreement. Each option will be exercisable into one option at the current market price for 18 months from issuance.

On October 27, 2020, the Company granted 500,000 stock options to individuals of Biologic and a consultant of the Company. The options were granted at an exercise price of $0.10 for a period of five (5) years, vesting immediately and expiring October 27, 2025 with an estimated fair market value of $19,575.

During the year ended December 31, 2020, the Company made a payment of $5,000 towards the JV Agreement with Biologic. During the year ended December 31, 2021, $17,000 payment was made towards the JV Agreement recorded in advances, prepaids and deposits. As of the date of these financials, the Company has made no additional payments towards the terms of the JV Agreement and no formal amendments to the agreement have been made.

As at December 31, 2021, the Company maintains a relationship with Plasm Pharmaceutical, a company that has been approved for conducting a phase 2 clinical trial approved by Health Canada for the treatment of COVID-19.

(Expressed in Canadian Dollars)

15. Capital Disclosure

The capital structure of the Company consists of equity attributable to common shareholders, comprising issued share capital, subscriptions received, reserves and deficit. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return and (iii) maintain liquidity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, or acquire or dispose of assets. The Company's policy is to invest its excess cash in highly-liquid, guaranteed, bank-sponsored instruments.

There were no significant changes in the Company's approach or objectives and policies for managing its capital during the years ended December 31, 2021 and 2020. The Company is not subject to externally imposed capital restrictions.

16. Income Taxes

The Company's combined statutory tax rate is currently at 27% (2020 - $27%), reflecting a combined federal corporate tax rate of 15% and BC corporate tax rate of 12%. A reconciliation of income tax provisions computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	December 31, 2021	December 31, 2020
Loss before income taxes	$ (3,141,931)	$ (4,659,642)
Expected income tax recovery	(848,321)	(1,258,103)
Adjustment resulting from		
Non-deductible items	279	102,144
Other	79,754	40,805
Share issuance costs	(18,712)	-
Under/over provided in prior years	-	(10,641)
Change in unrecognized temporary differences	787,000	1,125,795
Expected income tax recovery	$ -	$ -

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	December 31, 2021	December 31, 2020
Property and equipment	$ 22,000	$ (122,000)
Intangible assets	41,000	33,000
Share issuance costs	40,000	39,000
Debt with accretion	360,000	401,000
Non-capital losses	8,559,000	7,884,000
Total deferred tax assets	9,022,000	8,235,000
Unrecognized deferred tax assets	(9,022,000)	(8,235,000)
Net deferred tax assets	$ -	$ -

(Expressed in Canadian Dollars)

16. Income Taxes (Continued)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	December 31, 2021	Expiry date range	December 31, 2020	Expiry date range
Property and equipment	$80,000	No expiry	$(452,000)	No expiry
Intangible assets	$150,000	No expiry	$121,000	No expiry
Share issuance costs	$149,000	2042 to 2045	$144,000	2041 to 2044
Debt with accretion	$1,332,000	No expiry	$1,485,000	No expiry
Non-capital losses	$31,702,000	2027 to 2041	$29,199,000	2027 to 2040

Tax attributed are subject to review, and potential adjustment, by tax authorities.

17. Supplemental Cash Flow Information

	December 31, 2021	December 31, 2020
Non-cash items		
Shares issued for settlement of debt	$ 145,843	$ 680,005
Property and equipment additions included in accounts payable and accrued liabilities	$ -	$ 19,299
Interest and taxes paid		
Interest paid on short-term loan	$ 8,333	$ -
Taxes	$ -	$ -

18. Contingent Liabilities

During the year ended December 31, 2018, a claim was made against the Company by a hemp seed supplier for breach of a service and supply agreement. The Company was required to pay $24,918. As at December 31, 2021, a balance of $8,720 is outstanding. This amount is included in accounts payable and accrued liabilties as at December 31, 2021..

During the year ended December 31, 2019, a claim was made against the Company by an entity for trademark infringement and false designation of origin. On January 22, 2021, the Canadian federal court ruled in favor of the plaintiff and rejected the Company's trademark application. The Company was ordered to pay costs of $4,500. As at December 31, 2021, this amount had not been accrued by the Company.

During the year ended December 31, 2018, a claim was made by a supplier for breach of contract. Naturally Splendid has made a counterclaim against this supplier for loss of revenue as a result of breach of contract by not fulfilling orders. As at December 31, 2021, the Company and the Company's legal counsel is currently in process of defending this claim. An estimate of the contingent liabilities and likelihood of loss is unable to be determined at this time and no loss provision has been made in these consolidated financial statements. The Company intends to vigorously defend this claim. Should an adverse outcome result in the future, any amounts incurred may affect future results of operations and cash flows. As at December 31, 2021, the outcome and amount is uncertain. The Company has not made any accrual for this as at December 31, 2021.

In January 2021, a customer of the Company provided a notice of termination of manufacturing and supply agreement. The Company was given 60-day notice to pay outstanding balances of $198,061. This amount remains unpaid to date. As at December 31, 2021, this amount is included in accounts payable and accrued liabilities.

During the year ended December 31, 2019, a customer made a claim against the Company of $104,000 for payment of products sold as a part of a Naturally Splendid acquisition. Naturally Splendid responded to the claim stating that it would pursue all means necessary to defend this claim. Naturally Splendid has not heard back from the customer for over 1 year. As at December 31, 2021, this amount is included in accounts payable and accrued liabilities.

19. Segmented Information

The Company has one reportable operating segment, the sale of natural food and ingredients to commercial processors and consumers. All the Company's long-term assets are located in Canada.

20. Government Assistance

During the year ended December 31, 2021, the Company received the government wage subsidy of $469,154 (2020 - $496,062) recorded as a reduction to salaries in facility expenses and office, rent and salaries.

21. Subsequent Events

Subsequent to the year ended December 31, 2021,

(a) The Company closed the second tranche of the Offering to issue 37,348,532 Units for total gross proceeds of $1,120,456, of which $122,455 proceeds were received during the year ended December 31, 2021. Each Unit comprised of one common share and one common share purchase warrant with the same terms as noted in Note 13.

(b) 27,629,459 warrants and 1,290,000 options expired unexercised.

(c) The Company amended its lease agreement with the lessor of the food packaging equipment to retain equipment equal to the partial lease payments made and to return equipment to the lessor equal to the balance of unpaid lease payments.