The Planting Hope Company Inc.

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(Stated in United States dollars)

Independent Auditor's Report

To the Shareholders of The Planting Hope Company Inc.:

Opinion

We have audited the consolidated financial statements of The Planting Hope Company Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of loss and other comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss and net cash flows and negative cash flows from operating activities during the year ended December 31, 2022 and, as of that date, the Company had an accumulated deficit and a working capital deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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Business Combination

Key Audit Matter Description

As disclosed in note 5 to the consolidated financial statements, on January 14, 2022, the Company closed the acquisition of RightRice business assets from Betterer Foods Inc. The acquisition of the assets of RightRice was determined to meet the definition of a business under IFRS 3 "Business Combinations". Auditing the business combination was complex due to the subjective nature of estimating the fair values of identified assets and liabilities as at the date of the acquisition, particularly intangible assets. Management uses significant judgment in evaluating the inputs and assumptions used in their determination of fair value. The fair value of the identifiable intangible assets acquired were subject to higher estimation uncertainty due to management's judgment in determining key assumptions including revenue growth, earnings margins and discount rates. Changes to these significant assumptions could have a significant impact on the fair value of acquired intangible assets. Due to complexities in auditing the business combination, we have identified business combination as a key audit matter.

Audit Response

We responded to this matter by performing procedures in relation to estimated fair value of goodwill and intangible assets. Our audit work in relation to these included, but was not restricted to, the following:

- We assessed the purchase agreement to obtain an understanding of the key terms and conditions to identify the necessary accounting considerations and identification of assets and liabilities acquired.
- With the assistance of our internal valuation specialists, we evaluated the Company's model and valuation methodology and the various inputs utilized, including the discount rates, by referencing current industry and comparable company information as well as cash flow and company-specific risk.
- We evaluated the reasonableness of significant assumptions and estimates used by management, including revenue growth and earnings, by considering the past performance of the acquired business and comparing management's projections to actual and historical performance, as well as available third-party published economic and industry data. We performed sensitivity analysis on significant assumptions, including revenue growth rates, earnings and discount rate.
- We assessed the adequacy of the Company's disclosure included in note 5, Business combinations of the accompanying consolidated financial statements in relation to this matter.
- We obtained an understanding of management's internal control process and tested the design and implementation of essential controls relating to the business acquisition.

Impairment Assessment of Goodwill

Key Audit Matter Description

As at December 31, 2022, the Company has $2.2 million of goodwill disclosed in note 5 to the consolidated financial statements. Management assesses at least annually, or at any time if an indicator of impairment exists, whether there has been an impairment loss in the carrying value of goodwill. The Company performs its annual impairment analysis as at the consolidated statement of financial position date and estimates the recoverable amount of the cash-generating units ["CGUs"] to which goodwill has been allocated using a discounted cash flow model. The Company discloses significant judgments, estimates and assumptions and the results of its analysis in respect of impairment in note 5 to the consolidated financial statements. Auditing management's annual goodwill impairment test was complex, given the degree of judgment and subjectivity in evaluating management's estimates and assumptions in determining the recoverable amount of the of CGU. Significant assumptions included cash flow projections, revenue growth rate, earnings margins, terminal growth and after-tax discount rate, which are affected by expectations about future market and economic conditions. Due to the complexities in auditing the annual impairment test for goodwill, we have identified impairment assessment of goodwill as a key audit matter.

Audit Response

We responded to this matter by performing procedures in relation to the impairment assessment of goodwill. Our audit work in relation to this included, but was not restricted to, the following:

- We evaluated the appropriateness of management's use of the discounted cash flow model and tested the mathematical accuracy thereof.
- We involved our internal valuation specialists to assess the Company's impairment model, valuation methodology applied, the various inputs utilized as well as certain significant assumptions, including the discount rate and terminal growth rate.
- We performed sensitivity analysis on significant assumptions to evaluate changes in the recoverable amount of the CGU that would result from changes in the assumptions.
- We assessed the adequacy of the Company's disclosures included in note 5 of the consolidated financial statements in relation to this matter.
- We obtained an understanding of management's internal control process and tested the design and implementation of essential controls relating to the assessment of impairment of goodwill.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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 audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis 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. We have nothing to report in this regard.

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 International Financial Reporting Standards, 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.

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

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Calgary, Alberta

MNP LLP

May 1, 2023

Chartered Professional Accountants

THE PLANTING HOPE COMPANY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31
(Stated in United States dollars)

	Note		2022		2021
Assets					
Current assets					
Cash		**$**	**236,532**	$	5,810,961
Trade accounts receivable	22		**1,003,526**		111,442
Inventories	6		**2,604,295**		696,810
Prepaid expenses and deposits	7		**229,958**		350,567
Total current assets			**4,074,311**		6,969,780
Non-current assets					
Goodwill	5		**2,243,283**		–
Intangible assets	8		**2,973,403**		–
Right-of-use assets	12		**447,783**		564,531
Property and equipment			**102,092**		57,294
Total assets		**$**	**9,840,872**	$	7,591,605
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**4,100,413**	$	1,299,542
Short-term debt	9		**2,900,290**		–
Convertible debt	10		**144,913**		2,845,522
Derivative liability	10		**–**		7,084,160
Current portion of lease liability	12		**105,823**		92,836
Due to related parties	20		**5,952**		59,924
Total current liabilities			**7,257,391**		11,381,984
Non-current liabilities					
Convertible debt	10		**546,499**		–
Government loans	11		**26,547**		18,530
Lease liability	12		**371,661**		477,837
Total liabilities			**8,202,098**		11,878,351
Shareholders' deficit					
Share capital	13		**34,307,944**		22,636,830
Warrant reserve	14		**3,053,709**		2,819,127
Contributed surplus			**751,419**		20,921
Equity component of convertible debt	10		**924,099**		–
Accumulated other comprehensive income (loss)			**162,122**		(8,871)
Accumulated deficit			**(37,560,519)**		(29,754,753)
Total shareholders' equity (deficit)			**1,638,774**		(4,286,746)
Total liabilities and shareholders' equity (deficit)		**$**	**9,840,872**	$	7,591,605

Going concern (Note 1)
Contingency (Note 23)
Subsequent events (Note 24)

Approved by the Board of Directors: Signed *Kay Wong-Alafriz*, Director Signed *Julia Stamberger*, Director

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

THE PLANTING HOPE COMPANY INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31
(Stated in United States dollars)

	Note		2022		2021
Revenues	17	**$**	**12,211,743**	$	2,664,513
Trade spend			**(2,787,102)**		(281,631)
Spoilage and cash discounts			**(443,872)**		(61,611)
Net revenues	17		**8,980,769**		2,321,271
Cost of goods sold			**(6,715,772)**		(1,257,341)
Gross profit			**2,264,997**		1,063,930
Expenses					
Selling, general and administrative	18		**12,243,291**		6,755,960
Interest and accretion	19		**1,514,416**		555,313
Equity-based compensation	14,15		**730,498**		2,611,294
Amortization	8		**536,597**		–
Depreciation	12		**147,617**		32,287
Total expenses			**15,172,419**		9,954,854
Loss before other income (expense)			**(12,907,422)**		(8,890,924)
Other income (expense)					
Other income	4,13		**–**		402,636
Change in value of financial instruments	10		**4,970,947**		(5,622,712)
Loss on convertible debt	10		**(30,821)**		(33,044)
Government income	11		**–**		206,901
Merger transaction cost	4		**–**		(3,651,119)
Foreign exchange			**172,319**		(12,126)
Total other income (expense)			**5,112,445**		(8,709,464)
Loss before taxes			**(7,794,977)**		(17,600,388)
Taxes	21		**(10,789)**		
Net loss			**(7,805,766)**		(17,600,388)
Currency translation adjustment			**170,993**		(8,871)
Comprehensive loss		**$**	**(7,634,773)**	$	(17,609,259)
Loss per share	16	**$**	**(0.08)**	$	(0.89)

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

THE PLANTING HOPE COMPANY INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31
(Stated in United States dollars)

	Note	2022	2021
Share capital	13		
Balance, beginning of year		$ **22,636,830**	$ 9,022,788
Reverse takeover		**–**	2,632,356
Share issuances		**6,712,956**	8,740,576
Debt conversions		**5,664,933**	2,907,318
Exercise of warrants		**134,295**	524,459
Share issue costs		**(841,070)**	(1,190,667)
Balance, end of year		**34,307,944**	22,636,830
Warrant reserve	14		
Balance, beginning of year		**2,819,127**	–
Warrant issuances		**309,865**	3,044,810
Exercise of warrants		**(75,283)**	(225,683)
Balance, end of year		**3,053,709**	2,819,127
Contributed surplus			
Balance, beginning of year		**20,921**	–
Equity-based compensation	15	**730,498**	20,921
Balance, end of year		**751,419**	20,921
Equity component of convertible debt			
Balance, beginning of year		**–**	–
Issuance of convertible debt	10	**924,099**	–
Balance, end of year		**924,099**	–
Accumulated other comprehensive income (loss)			
Balance, beginning of year		**(8,871)**	–
Currency translation adjustment		**170,993**	(8,871)
Balance, end of year		**162,122**	(8,871)
Accumulated deficit			
Balance, beginning of year		**(29,754,753)**	(12,154,365)
Net loss		**(7,805,766)**	(17,600,388)
Balance, end of year		**(37,560,519)**	(29,754,753)
Total shareholders' equity (deficit)		$ **1,638,774**	$ (4,286,746)

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

THE PLANTING HOPE COMPANY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Stated in United States dollars)

	Notes		**2022**		2021
Operating activities					
Net loss		**$**	**(7,805,766)**	$	(17,600,388)
Add back (deduct) non-cash items:					
Amortization	8		**536,597**		–
Depreciation	12		**147,617**		32,287
Interest and accretion	19		**1,514,416**		555,313
Merger transaction cost	4		**–**		3,651,119
Other income	4,13		**–**		(402,636)
Government Income	11		**–**		(206,901)
Change in fair value on financial instruments	10		**(4,970,947)**		5,622,712
Loss on convertible debt	10		**30,821**		33,044
Equity-based compensation	14,15		**730,498**		2,611,294
Change in non-cash working capital:					
Trade accounts receivable			**459,822**		(79,977)
Inventories			**(584,636)**		(241,873)
Prepaid expenses and deposits			**143,449**		(276,260)
Accounts payable and accrued liabilities			**1,287,229**		147,145
Cash flows used in operating activities			**(8,510,900)**		(6,155,121)
Investing activities					
Cash acquired in merger transaction	4		**–**		887,435
Business combination	5		**(4,000,000)**		–
Property and equipment purchases			**(75,667)**		(58,291)
Cash (used in) provided by investing activities			**(4,075,667)**		829,144
Financing activities:					
Repayment of short-term debt, net	9		**(193,000)**		(975,000)
Proceeds from convertible debt, net of issue costs	10		**1,450,643**		3,949,779
(Repayment of) proceeds from government loans	11		**(2,193)**		197,314
Lease payments	12		**(145,982)**		(22,701)
Share issuance proceeds, net of issue costs	13		**6,240,763**		8,016,075
(Repayment of) proceeds from related parties	20		**(53,972)**		61,895
Interest paid			**(212,781)**		(75,934)
Cash provided by financing activities			**7,083,478**		11,151,428
(Decrease) increase in cash			**(5,503,089)**		5,825,451
Cash effects of currency translation			**(71,340)**		(43,284)
Cash, beginning of year			**5,810,961**		28,794
Cash, end of year		**$**	**236,532**	$	5,810,961

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

1. NATURE OF OPERATIONS

The Planting Hope Company Inc. ("TPHC") was incorporated on November 19, 2020 by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (British Columbia) as Campio Capital Corp. and changed its name to The Planting Hope Company Inc. on May 7, 2021. The principal business of the Company is to develop, launch and scale nutritious, sustainable, and delicious consumer packaged foods and beverages in the natural food products segment of the United States, Canada and internationally. The Company strives to operate as a diverse, ethical and sustainable producer of nutritious, plant-based foods and snacks.

On August 25, 2021, TPHC completed the acquisition of Planting Hope Brands, LLC (formerly Spinning Wheel IP, LLC) ("PHB") (TPHC together with PHB, the "Company") (Note 4). PHB is a Delaware Company formed on February 8, 2016 and based in Illinois. PHB manufactures and distributes plant-based and sustainable food and beverages. The principal markets for PHB's products are in North America.

On January 14, 2022, the Company closed the acquisition of RightRice® business assets from Betterer Foods, Inc. (Note 5).

The head office and registered office of TPHC is located at c/o 400 – 725 Granville Street, Vancouver, British Columbia, V7Y 1G5. The corporate and registered office of PHB is 4710 N. Sheridan Road, Chicago, Illinois, 60640.

The Company's shares trade on the TSX Venture Exchange (the "TSXV") under the symbol "MYLK" and on the OTCBQ Venture Market under the symbol "MYLKF".

Going concern

These consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. During 2022, the Company generated a net loss of $7,805,766 (2021 – $17,600,388) and reported $8,510,900 (2021 – $6,155,121) of cash flows used by operating activities. As at December 31, 2022, the Company had an accumulated deficit of $37,560,519 (2021 – $29,754,753) and a working capital deficit of $3,183,080 (2021 – $4,412,204). As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Company's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Company as a going concern is dependent on the ability of the Company to achieve positive cash flow from operations and/or obtain necessary equity or other financing to continue. Subsequent to December 31, 2022, the Company raised $2.9 million of financing proceeds through the issuance of convertible debentures and settled $0.3 million of accounts payable through the issuance of 924,576 SVS to the creditors (Note 23).

These consolidated financial statements do not reflect adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern. Such adjustments to the carrying value of assets and liabilities, the reported expenses and their classifications, if required, could be material.

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 and interpretations issued by the International Financial Reporting Interpretations Committee in effect as of January 1, 2022.

The consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 1, 2023.

(b) Basis of consolidation

These consolidated financial statements include the accounts of the following entities:

Name	Place of Business	Ownership
TPHC	Canada	Parent company
PHB	United States ("U.S.")	100% owned subsidiary

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

(c) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value.

(d) Functional and presentation currency

The functional currency of TPHC is the Canadian dollar ("CAD"); the functional currency of PHB is the United States dollar ("USD").

The presentation currency of the Company is the USD.

(e) Comparative balances

PHB's reverse takeover ("RTO") of the Company accordingly includes in the consolidated financial statements a continuation of PHB. All prior period comparative amounts are those of PHB and include the results of the Company from the date of the RTO.

(f) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Judgments, estimates and underlying assumptions are reviewed on an ongoing basis. 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 future periods if the review affects both current and future periods.

The accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position are as follows:

Critical accounting judgments

- Functional currency – The determination of the functional currency for the Company and its subsidiary was based on management's judgment of the underlying transactions, events, and conditions relevant to each entity.
- Going concern – The going concern assessment requires management's judgment on the ability of the Company to achieve positive cash flow from operating activities and/or obtain necessary equity or other financing to execute the Company's business plan.
- Business combination – Judgments are required in determining whether an acquisition constitutes a business combination or asset acquisition based on the criteria in IFRS 3 Business Combinations.
- Cash-generating units – The Company's assets are aggregated into cash-generating units ("CGUs") based on an assessment of a CGU's ability to generate independent cash in-flows. The Company has three CGUs: (1) Hope and Sesame® Sesamemilk: sesame-based plant milk products (2) RightRice® Veggie Rice: 'rice' grains made from a combination of lentils + chickpeas + peas + rice (3) Mozaics™ Real Veggie Chips and Veggicopia® Real Veggie Snacks: vegetable snack products. The determination of the Company's CGUs was based on management's judgment in regard to product type, shared selling and marketing efforts, similar exposure to market risk and materiality. The allocation of assets into CGU's requires significant judgment and interpretations with respect to determining the smallest group of assets that generate cash inflows that are largely independent of each other.
- Leases – The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.
- Impairment – Judgments are required to assess when impairment indicators are evident and impairment testing is required.
- Revenue – The Company makes judgments in determining whether a performance obligation is distinct (i.e. if a service is separately identifiable from other services provided and if the customer can benefit from it). Judgments are required when evaluating when a performance obligation is satisfied, and revenue may be recognized. In making its judgments, management considers when a customer obtains control of the good or service being promised in the contract and whether another entity fulfilling remaining services would need to re-perform work completed to date. Judgments are also used to determine whether the Company acts as principal or agent on certain flow-throw charges to customers, such as freight costs incurred on the shipment of goods. The judgments made include whether the Company or a third-party controls the goods or services provided.

- Current and deferred taxes – Tax interpretations, regulations, court rulings and legislation in the various jurisdictions in which the Company operates are subject to change. As such, current and deferred taxes are subject to measurement uncertainty. Management uses judgment to assess deferred tax assets at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

Key accounting estimates

- Valuation of trade accounts receivable – The allowance for expected credit losses assessment requires a degree of estimation and judgment. It is based on the number of days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include sales experience, historical collection and non-payments.
- Valuation of inventories – The valuation of inventory at net realizable value is based on management's best estimate including historical experience relating to the ultimate selling prices less costs to sell the inventory.
- Government loans – The Company is required to make certain assumptions in estimating the fair value of the low interest rate loans received from the government. These assumptions include the allocation of value between the future cash flow and carrying value of these loans and the determination of a comparable interest rate that would be obtained if a financing was obtained from in independent financial institution to acquire a similar type of loan.
- Leases – Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.
- Convertible debt – The Company makes estimates relating to the selection of appropriate market rates of interest to discount contractual interest and principal payments of compound financial instruments. There are also estimates related to the fair value of the embedded features which requires determining the most appropriate valuation model and the most appropriate inputs to the valuation model.
- Stock options and warrants – The fair value of stock options and warrants is recognized using the Black-Scholes model, that takes into account the terms and conditions upon which the stock options and warrants were issued. Measurement inputs include the Company's share price on the measurement date, the exercise price of the stock options/warrants, the expected volatility, the expected life of the stock options/warrants and the risk-free rate of return. The Company estimates volatility based on historical volatilities of publicly-traded peer companies. The expected life of stock options/warrants is based on historical experience and estimates of the holder's behaviour. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. For the fair value of stock options, management also makes an estimate of the number of stock options that may be forfeited, and the rate is adjusted to reflect the actual number of stock options that actually vest.
- Deferred taxes – Deferred taxes are based on estimates as to the timing of the reversal of temporary and taxable differences, substantively enacted tax rates and the likelihood of assets being realized.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash

Cash comprise cash on hand and balances with financial institutions.

(b) Inventories

Inventories are carried at the lower of cost and net realizable value. Allowances are made against obsolete or damaged inventories and charged to cost of sales. The reversal of any inventory write-downs arising from an increase in net realizable value are recognized as a reduction in cost of sales in the period in which the reversal occurred.

(c) Property and equipment

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed under the straight-line method. The useful lives of property and equipment for purposes of computing depreciation is three to five years.

(d) Intangible assets

Intangible assets consist of acquired customer relationships, brand name and technology. Intangible assets are accounted for at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the estimated useful lives which is 10 years for customer relationships and 5 years for brand name and technology assets. The estimated useful lives and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(e) Goodwill

Goodwill is recognized in a business combination when the purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is reported at cost less any impairment and is not amortized. Goodwill is deductible for U.S. tax (Note 21). Goodwill is evaluated when facts and circumstances indicate that it is impaired, or at least on an annual basis.

To test for impairment, goodwill is allocated to the related CGU expected to benefit from the acquisition. Goodwill is tested by comparing the carrying amount of the CGU to the recoverable amount. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Goodwill impairments are not reversed.

(f) Impairment of non-financial assets

Long-lived assets or finite life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell (“FVLCS”) and value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. When an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset is increased to the revised estimate but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior years. In the process of measuring expected future cash flows, management makes assumptions about future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company’s assets in subsequent financial years.

(g) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade accounts receivable, accounts payable and accrued liabilities, short-term debt, convertible debt, lease liability, due to related parties and government loans. Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are classified based on the business model in which they are held and the characteristics of their contractual cash flows.

There are three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). The classification categories are as follows:

- A financial asset is measured at amortized cost: Financial assets held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortized cost are measured using the effective interest method. Cash and trade accounts receivable are classified as financial assets measured at amortized cost.
- Financial assets at FVOCI: Financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at FVTPL: Financial assets that do not meet the criteria for amortized cost or fair value through other comprehensive income. Transaction costs of financial assets measured at FVTPL are expensed in the consolidated statement of loss and comprehensive loss.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to those assets are transferred.

Financial liabilities are classified into the following categories at initial recognition:

- Financial liabilities measured at amortized cost: Financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the consolidated statement of loss and comprehensive loss. Accounts payable and accrued liabilities, short-term debt, convertible debt, lease liability, due to related parties and government loans are classified as financial liabilities measured at amortized cost.
- Financial liabilities measured at FVTPL: Financial liabilities measured a fair value with changes in fair value and interest expense recognized in the consolidated statement of loss and comprehensive loss.

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

Derivative financial instruments

Subsequent to initial recognition at fair value, the Company subsequently classifies derivative liabilities as FVTPL. Upon the exercise or conversion of convertible debt to common shares, the related fair value of the derivative liability is transferred to share capital as consideration for the common shares issued, along with cash consideration, if any.

Impairment of financial assets

Impairment of financial assets is based on an expected credit loss ("ECL") model. ECLs are a probability-weighted estimate of credit losses. The Company calculates lifetime ECLs based on consideration of customer-specific factors, actual credit loss experience and forecasted economic conditions. Management considers historical default rates generally represent a reasonable approximation of future expected defaults and as a percentage of revenue, the Company's actual credit loss experience has been minor.

(h) Convertible debt

Convertible debt that may be settled with cash or another financial asset or is convertible into a fixed number of common shares is bifurcated into a debt portion and an equity portion. The debt portion is a financial liability which represents the obligation to pay interest on the convertible debt in the future. The fair value of the debt portion at issuance is determined based on the present value of future cash flows discounted at a borrowing rate available for similar non-convertible debt. The residual amount is recognized as the equity portion at issuance and is not subsequently re-measured. The debt portion is subsequently measured at amortized cost.

Transaction costs related to the issue of convertible debt are allocated to the debt and equity components in proportion to their initial carrying amounts. The equity portion is presented net of the allocated portion of transaction costs. Transaction costs related to the debt portion are net against the carrying amount of the debt portion and are amortized over the term of the convertible debt using the effective interest method.

Convertible debt that may be settled with cash or another financial asset or is convertible into a variable number of common shares is bifurcated into a debt portion and a derivative liability portion. The derivative liability is measured at fair value on the date of issuance.

(i) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability.

(j) Revenue recognition

The Company derives its revenues from the sale of its portfolio of plant-based food and beverage products. Revenues are recognized when control of these products are transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products. Sales and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. Shipping and handling fees charged to customers are reported within revenue.

The Company does not have any significant financing components as payment is received at or shortly after the point of sale. For performance obligations related to the sale of the Company's plant-based food and beverage products, control transfers to the customer at a point in time. The Company's principal terms of sale are FOB Shipping Point and the Company transfers control and records revenue for product sales upon shipment to the customer. Invoices are sent to customers immediately after shipment and general payment terms are net 45.

The nature of the Company's business gives rise to variable consideration. The major component stemming from trade spend which incorporates placement fees, national promotions (discounting), and marketing allowances. These are known up front and are recorded in the trade spend category in order to track and monitor these programs. Another component that impacts overall net revenue are the chargebacks related to spoilage. These generally decrease the transaction price which reduces revenue. These variable amounts are generally credited to the customer, based on the terms and agreements with the various customers.

(k) Share capital

The Company's subordinated voting shares ("SVS") and multiple voting shares ("MVS") are classified as equity. The Company may issue warrants exercisable into SVS as part of a unit issuance comprised of an SVS and warrant. Warrants are classified as equity instruments. Consideration received on the sale of a unit is allocated, within equity, to the respective share capital or warrant categories on the basis of their relative fair values. The fair value of warrants is measured on the date of issuance using a pricing model, such as Black-Scholes, that takes into account the terms and conditions upon which the warrants were issued. Warrants are not subsequently re-measured for changes in fair value. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

(l) Equity-based payments

The Company recognizes equity-based compensation expense for all warrants issued and stock options granted to employees, officers, directors, agents and consultants based on the fair value of the warrants and stock options at the date of the grant. The fair value of warrants and stock options granted to employees, officers, and directors is determined using the Black-Scholes model with market related inputs as of the date of grant. The fair value of warrants and stock options granted to consultants and agents is measured at the fair value of the services delivered unless fair value cannot be estimated reliably, in which case fair value is determined using the Black-Sholes model. Forfeitures are accounted for using estimates based on historical actual forfeiture. Upon the exercise of warrants and stock options, consideration received along with the related fair value amount transferred from warrant reserve or contributed surplus is recorded as share capital.

Restricted share units (RSUs) granted by the Company may be settled by issuing one SVS for each RSU or in cash, at the Company's option. As there is no present obligation for the Company to settle in cash, RSUs are accounted for as equity-settled share-based payments. The fair value of RSUs is estimated based on the market value of the Company's shares on the date of grant and is recognized as share-based payment expense, with a corresponding increase in contributed surplus, over the vesting period, based on the Company's estimate of RSUs that will eventually vest. Upon settlement of the RSUs, if the Company elects to settle in cash, the cash payment is recognized as a repurchase of equity; if the Company elects to settle by issuing one SVS for each RSU settled, no further accounting is required.

(m) Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares. The weighted average number of common shares outstanding is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all share options and warrants with exercise prices below the average market price for the year.

(n) Government assistance

The Company may receive government-funded assistance. When the assistance relates to an expense item, it is recognized as other income over the period necessary to match the amount to the costs that it is intended to compensate. When the assistance relates to an amount to be repaid, it is recognized as debt in accordance with the terms of the assistance. Amounts are recognized when loan proceeds are received, or when there is reasonable assurance that the Company has met the requirements of the approved government program and there is reasonable assurance that the amount will be received.

(o) Foreign currencies

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Exchange differences on monetary items are recognized in the consolidated statement of loss and comprehensive loss in the period in which they arise.

The financial results of operations that have a functional currency different from the presentation currency are translated into the presentation currency. Income and expenditures of operations are translated at the average rate of the exchange for the year. All assets and liabilities are translated at the rate of exchange at the reporting date. Differences arising on translation are recognized as other comprehensive income (loss).

(p) Taxes

Tax expense or recovery on the income or loss for the period is comprised of current and deferred tax. Taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is recognized using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for assets that not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable income. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

(q) Business combination

The acquisition of a subsidiary or assets that meet the definition of a business under IFRS 3 Business Combinations ("IFRS 3)") is accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The identifiable assets acquired and liabilities and contingent liabilities assumed that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for, deferred income taxes, employee benefit arrangements, share-based compensation, and assets held for sale, which are measured in accordance with their applicable IFRS. Any excess consideration over the fair value of the identifiable net assets is recognized as goodwill. Acquisition-related costs, other than those associated with the issuance of debt or equity, are recognized in profit or loss as incurred.

An acquisition of a subsidiary or assets that do not meet the definition of a business under IFRS 3 or which meet the optional test to identify a concentration of fair value is accounted for as an asset acquisition.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date up to a maximum of one year.

(r) Segmented operations

The Company reports segment information based on internal reports used by the chief operating decision maker ("CODM") to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer of the Company. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment. All revenues are derived from operations in the U.S. All property and equipment and right-of-use assets are located in the U.S. Cash balances are held in the U.S. and Canada. The Company does not have any revenue in Canada.

(s) New and amended standards not yet adopted

The Company has reviewed new and amended accounting pronouncements that have been issued but are not yet effective and determined that the following amendments are applicable to the Company but are not expected to have a material impact:

Amendments to IAS 1 Presentation of Financial Statements

Effective January 1, 2023, amendments to IAS 1 require that companies disclose their material accounting policies rather than its significant accounting policies and explain how a company can identify material accounting policies.

Effective January 1, 2024, amendments to IAS 1 clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability as current or non-current.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

(Stated in United States dollars)

Effective January 1, 2023, amendments to IAS 8 replace the definition of a change in accounting estimate with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The amendments clarify that a change in an accounting estimate that results from new information or new developments is not the correction of an error.

Amendments to IAS 12 Income Taxes

Effective January 1, 2023, amendments to IAS 12 relate to deferred tax assets and liabilities arising from a single transaction and clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

4. REVERSE TAKEOVER

On August 24, 2021, TPHC and PHB entered into an arms-length Securities Purchase Agreement (the “Transaction”). The purpose of the Transaction was to effect a reverse takeover (“RTO”) of TPHC by PHB with the goal of listing the consolidated company the TSX-V. The Transaction resulted in PHB becoming a wholly-owned operating subsidiary of TPHC and the primary business of the Company. Pursuant to the Transaction, TPHC acquired, from each PHB unitholder, all PHB units on the basis of one MVS exchanged for every one hundred PHB units held or one SVS exchanged for every one PHB unit held. The total purchase price for all the issued and outstanding 45,069,173 PHB units consisted of 450,659 newly issued MVS and 3,273 newly issued SVS issued to PHB unitholders, for an aggregate equivalent of 45,069,173 SVS. In addition, the parties agreed to issue 930,825 employee warrants with the right to purchase 930,825 SVS for which issuance occurred on November 1, 2021 (Note 13).

Based on the guidance of IFRS 10 Consolidated Financial Statements, TPHC was determined to be the accounting acquiree with PHB as the accounting acquirer since the shareholders of PHB now control TPHC.

The share consideration was valued at CAD $0.40 per share which was deemed to be the fair value price per SVS. As a result of the Transaction, the shareholders of TPHC obtained approximately 15% of the combined entity. As such, PHB calculated the fair value of the 15% ownership percentage obtained by TPHC shareholders to be the value of the share consideration.

As TPHC was determined not to be a business as defined under IFRS 3 Business Combinations, the RTO was accounted for as an asset acquisition and the Company recognized a merger transaction cost of $3,651,119 based on the Transaction purchase price allocation summarized below:

Consideration:		
Value of equity instruments	$	2,632,356
Value of net liabilities:		
Cash		887,435
Convertible loan receivable (1)		1,869,661
Accounts payable and accrued liabilities		(175,521)
Derivative liability		(1,252,621)
Convertible debt		(2,347,717)
Total		(1,018,763)
Merger transaction cost	$	3,651,119

(1) The convertible loan receivable owed to TPHC by PHB was effectively settled on August 24, 2021 upon completion of the Transaction, resulting in the recognition of a $566,479 gain in other income.

(Stated in United States dollars)

5. BUSINESS COMBINATION

On January 14, 2022, the Company closed the arm's-length acquisition of RightRice® business assets (the "Acquisition") from Betterer Foods, Inc. (the "Seller"). The aggregate purchase price of $6,875,904 is comprised of $4,000,000 in cash funded at closing, with the balance payable under two unsecured promissory notes bearing interest at 5% per annum.

As the business assets of RR were determined to meet the definition of a business as defined under IFRS 3 Business Combinations, the Acquisition was accounted for as a business combination. The purchase price was allocated to the fair value of assets acquired and liabilities assumed on the acquisition date as follows:

Fair value of consideration:		
Cash	$	4,000,000
Promissory notes (Note 9(a))		2,875,904
	$	6,875,904
Fair value of net assets:		
Trade accounts receivable	$	1,351,906
Inventories		1,322,849
Prepaid expenses and deposits		22,840
Accounts payable and accrued liabilities		(1,574,974)
Intangible assets (Note 8)		3,510,000
Goodwill		2,243,283
	$	6,875,904

Since the Acquisition date on January 14, 2022, the RightRice® business assets contributed $8,910,831 to revenues and approximately $734,900 loss to the net loss reported for the year ended December 31, 2022. Had the Acquisition occurred on January 1, 2022, the Company estimates that revenues would have increased by approximately $370,000 and net loss would have decreased by approximately $74,000. The pro forma information is not necessarily representative of future revenue and operations.

The acquisition provided the Company with a high-potential line of innovative and differentiated grain alternative products to the Company's portfolio of plant-based, planet-friendly, highly-nutritious brands.

Goodwill recognized in the Acquisition is primarily attributed to the expected synergies, assembled workforce and other benefits from combining the assets and activities of RR. For tax purposes, the $2,367,379 deductible amount of goodwill represents the allocated fair value plus the discount on the promissory notes.

As at December 31, 2022, the Company tested goodwill for impairment and determined that there was no impairment as the estimated recoverable amount of the RR CGU is in excess of the carrying amount. The recoverable amount of goodwill was based on the RR CGU's FVLCS. The key assumptions used in determining the FVLCS include the estimated future after-tax cash flows expected to be generated from the continued operation of the RR CGU for 10 years based on annual revenue growth rates of 11% to 32% for years 1 to 4 and 2% thereafter, net of deductions for changes in working capital and capital expenditures plus a terminal amount calculated at a factor of 6.25 of the year 10 net after-tax cash flows, discounted at 18%.

No impairment would result from a 2% change in the discount rate. A 2% increase in the discount rate would decrease the FVLCS by approximately $885,000; a 2% decrease in the discount rate would increase the FVLCS by approximately $1,140,000.

(Stated in United States dollars)

6. INVENTORIES

		2022		2021
Ingredients	$	**400,746**	$	90,733
Packaging		**691,416**		205,349
Finished goods		**1,614,774**		423,010
Reserve for obsolescence		**(102,641)**		(22,282)
	$	**2,604,295**	$	696,810

During 2022, $6,403,548 (2021 – $1,178,185) of inventory was expensed to cost of goods sold.

7. PREPAID EXPENSES AND DEPOSITS

		2022		2021
Insurance	$	**11,094**	$	23,710
Security deposit		**11,750**		11,750
Inventory purchase deposits		**65,161**		131,092
Trade show deposits		**17,059**		49,093
Service contracts		**124,894**		134,922
	$	**229,958**	$	350,567

8. INTANGIBLE ASSETS

		Customer relationships		Brand name		Technology		Total
Cost								
Acquired (Note 5)	$	1,440,000	$	1,510,000	$	560,000	$	3,510,000
Accumulated amortization								
Amortization expense		(138,477)		(290,416)		(107,704)		(536,597)
Net carrying amount								
December 31, 2022	**$**	**1,301,523**	**$**	**1,219,584**	**$**	**452,296**	**$**	**2,973,403**

(Stated in United States dollars)

9. SHORT-TERM DEBT

		2022		2021
Promissory notes (a)	$	**1,093,290**	$	–
Credit facility (b)		**1,807,000**		–
	$	**2,900,290**	$	–

A continuity of short-term debt is summarized in the following table:

		2022		2021
Balance, beginning of year	$	**–**	$	1,175,000
Issued		**3,000,000**		–
Cash proceeds		**1,807,000**		156,056
Fair value adjustment		**(124,096)**		–
Accretion		**137,661**		–
Cash repayments		**(2,000,000)**		(1,131,056)
Share settlement		**–**		(200,000)
Loss on settlement		**30,821**		–
Accrued interest		**48,904**		–
Balance, end of year	$	**2,900,290**	$	–

During 2022, the Company recognized $170,375 (2021 – $128,693) of interest expense on short-term debt (Note 19).

(a) Promissory notes

As part of the consideration for the Acquisition completed on January 14, 2022 (Note 5), the Company issued two promissory notes.

The first unsecured promissory note ("Promissory Note 1") in the amount of $2,000,000 was fully due and payable (including all accrued interest) on the earlier to occur of (i) the date of the closing of any offering of securities of the Company (whether by way of a prospectus offering or on a private placement basis), which offering may be completed in one or more tranches, raising aggregate gross proceeds of not less than US $4,000,000 and (ii) March 31, 2022, the maturity date.

Promissory Note 1 plus $17,260 of accrued interest was paid on March 18, 2022, following the completion of a bought-deal public offering (Note 13(b)(v)) and the Company recognized a $30,821 loss on settlement of promissory notes in the 2022 consolidated statement of loss and comprehensive loss.

The second unsecured promissory note ("Promissory Note 2") in the amount of $1,000,000 is fully due and payable (including all accrued interest) on January 14, 2023. Pursuant to the terms of the Acquisition, the Company has the right to withhold from payment on Promissory Note 2 an amount equal to the Company's good faith, reasonable estimate of the maximum amount of indemnifiable losses for Seller's breach of representations and warranties in the Asset Purchase Agreement (Note 23).

The issue date fair value of the promissory notes was determined to be $2,875,904 based on expected cash flows discounted at a rate of 15%.

(Stated in United States dollars)

A continuity of promissory notes is summarized in the following table:

Issued (Note 5)	$	3,000,000
Issue date fair value adjustment		(124,096)
		2,875,904
Accretion		137,661
Repayment		(2,000,000)
Loss on settlement		30,821
Accrued interest		48,904
Balance, December 31, 2022	**$**	**1,093,290**

During 2022, the Company recognized $65,342 of interest expense on the promissory notes.

(b) Credit facility

On May 16, 2022, the Company entered into a non-dilutive revolving line of credit agreement (the "Credit Facility") with CircleUp Credit Advisors LLC to support the Company's growth. The Credit Facility has a credit limit of $2,500,000 at a simple interest rate of 10.25% per annum, offers an advance rate on eligible accounts receivable (75%), purchase orders (65%), and inventory (50%), is secured against certain assets of PHB with a carrying value of $7.3 million as at December 31, 2022 and is in place for 18 months to November 4, 2023. A fee of $65,625 equal to 1.75% of the maximum amount of the Credit Facility is assessed annually and paid via proceeds from eligible accounts receivable which are first applied against the annual fee until fully repaid and next against accrued and unpaid interest. Proceeds from eligible accounts receivable in excess of the annual fee and accrued interest are paid to the Company. The annual fee is amortized to interest and accretion expense on a straight-line basis.

As at December 31, 2022, the balance drawn on the Credit Facility was $1,807,000. During 2022, the Company recognized $105,033 of interest expense and $27,345 of annual fee amortization (Note 19) in the consolidated statement of loss and comprehensive loss.

(c) Inventory term loans

- Promissory notes secured by inventory of the Company having a combined principal balance of $500,000 requiring interest only payments until the maturity date of February 1, 2021. Interest accrued at a rate of 12% per annum until May 27, 2020 after which time interest accrued at 14% per annum. The $500,000 principal amount plus $7,232 of accrued interest was repaid in cash on May 28, 2021.
- A $100,000 promissory note secured by inventory of the Company requiring interest only payments at a rate of 15% per annum until the maturity date of November 12, 2020, at which time principal and any unpaid interest was due in full. The loan was not repaid at maturity resulting in an increase in the interest rate to 17% per annum thereafter. The $100,000 principal amount plus $10,312 of accrued interest was repaid in cash on November 30, 2021.

(d) Unsecured term loans

- A $100,000 promissory note obtained in 2020 bearing interest at 15% per annum, due to a party related as a family member of a founding member, with a maturity date of March 31, 2021 and an extension option date of June 30, 2021, at which time the principal amount and any unpaid interest were due in full. The $100,000 principal amount plus $12,575 of accrued interest was repaid in cash on November 23, 2021.

(Stated in United States dollars)

- A $25,000 promissory note obtained in 2019 bearing interest at 6% per annum requiring interest only payments until the maturity date of February 28, 2020, at which time the principal amount and any unpaid interest were due in full. This loan was not repaid at maturity and remained outstanding at December 31, 2020 under the original terms. The $25,000 principal amount plus $3,378 of accrued interest was repaid in cash on December 16, 2021.
- A $100,000 promissory note obtained in 2021 bearing interest at 15% per annum, due to a party related through shareholdings, with a maturity date of March 31, 2021, and an extension option date of June 30, 2021, at which time the principal amount and any unpaid interest were due in full. The $100,000 principal amount plus $13,972 of accrued interest were repaid on cash on November 22, 2021.

(e) Secured term loans

- Promissory notes having a combined principal amount of $200,000, due to directors of the Company, requiring interest only payments at a rate of 18% per annum until the maturity at various dates in 2020. The promissory notes were not repaid at maturity and remained outstanding at December 31, 2020 under their original terms. On August 24, 2021, the Company converted the $200,000 principal amount plus $62,827 of accrued interest into 1,089,371 common shares (Note 13(b)(i)).
- A $250,000 promissory note, due to a director of the Company, requiring interest only payments until the maturity date of July 7, 2020, at which time the principal amount and any unpaid interest were due in full. Interest accrued at a rate of 12% per annum up to the July 7, 2020 maturity date, and 14% thereafter until repaid in full. On November 22, 2021, the Company repaid $250,000 principal amount plus $56,731 of accrued interest in cash.

(f) Purchase order ("PO") financing loans

- PO financing loans based on orders from one customer such that when a PO was placed by the customer, the Company received funding to support the inventory required to fulfill the PO. Interest on the purchase order financing loans accrued at a rate of 18% per annum. When the customer paid the related invoice, the PO financing loan plus accrued interest became due. During 2021, the Company obtained and repaid a $56,056 PO financing loan plus $2,482 of accrued interest in cash.

10. CONVERTIBLE DEBT

		2022		2021
2022 Convertible Debentures (a)	$	**589,422**	$	–
Convertible Notes (b)		**101,990**		2,845,522
		691,412		2,845,522
Current portion		**(144,913)**		(2,845,522)
Long-term portion	$	**546,499**	$	–

During 2022, the Company recognized $110,007 (2021 – $36,648) of interest expense on convertible debt (Note 19).

(a) 2022 Convertible Debentures

On October 20, 2022, the Company closed a private placement of convertible debentures (the "2022 Debentures") for gross proceeds of $1,621,559 (CAD $2,223,750), representing the principal amount of the 2022 Debentures. The principal amount bears interest at 12% per annum, payable semi-annually in arrears and matures on October 20, 2025 (the "maturity date"). The December 31, 2022 face value of the 2022

Debentures is $1,838,810 (CAD $2,490,600) representing the $1,641,795 (CAD $2,223,750) principal amount plus $197,015 (CAD $266,850) of bonus interest.

At any time prior to the maturity date, holders of 2022 Debentures may convert all or a portion of the principal amount into units of the Company at CAD $0.55 per unit where each unit is comprised of one SVS and one warrant exercisable into one SVS at an exercise price of CAD $0.80 at any time prior to the maturity date. Any units, SVS and warrants issued in respect of the conversion of 2022 Debentures may not be transferred or sold until April 21, 2023.

Interest may be paid at the election of the Company in cash or converted into SVS at a conversion price (the "Interest Conversion Price") equal to the maximum Discounted Market Price (as defined under the policies of the TSX-V) based on the closing price of the Company's shares on the date immediately preceding the interest payment due date.

On the maturity date, the Company has the option to:

- repay in cash the principal amount plus all bonus interest and accrued and unpaid interest; or
- convert the principal amount into units at CAD $0.55 per unit and repay all bonus interest and accrued and unpaid interest in cash or convert into SVS at the Interest Conversion Price.

At any time after April 21, 2023, the Company may provide a redemption notice to the 2022 Debenture holders to redeem, by cash payment, the face value of the 2022 Debentures and all accrued and unpaid interest plus a redemption penalty of 8% of the face value (the "Redemption Amount"). After receipt of the redemption notice, holders may elect to convert all or a portion of the principal amount into units at CAD $0.55 per unit and convert all or a portion of related bonus interest and accrued and unpaid interest into SVS at the Interest Conversion Price. The Redemption Amount shall be paid in cash.

At issuance, the principal amount of the 2022 Debentures is considered to be equity because there is no contractual obligation to settle in cash and, if converted to units, the conversion price is fixed at CAD $0.55 per unit. However, the interest payable on the 2022 Debentures, including bonus interest, is considered to be a financial liability as it is convertible into a variable number of SVS based on the Interest Conversion Price, if and when converted. The estimated fair value of the interest payable was determined to be $588,582 (CAD $807,160) based on the present value of expected cash flows discounted at 15% and the $1,032,977 (CAD $1,416,590) the residual portion of 2022 Debenture proceeds was allocated to equity. At issuance, the estimated fair value of the Redemption Amount was determined to be nominal and therefore no amount has been recognized in the consolidated financial statements.

The Company paid $107,819 (CAD $147,860) of finders' fees and incurred $63,097 (CAD $86,529) of other direct costs in connection with the private placement which have been attributed to debt and equity issue costs based on the relative values of the debt and equity portions.

The debt portion, net of attributed issue costs, is accreted using an effective interest rate of approximately 1.2% per month. Accretion expense is included in accretion and interest expense in the consolidated statement of loss and comprehensive loss.

(Stated in United States dollars)

A continuity of the 2022 Debentures is summarized in the following table:

		Principal amount (CAD)		Debt portion (USD)		Equity portion (USD)
Balance, December 31, 2021	$	–	$	–	$	–
Issued		2,223,750		588,582		1,032,977
Issue costs		(234,389)		(62,038)		(108,878)
Accretion		–		13,352		–
Accrued interest		–		42,923		–
Foreign exchange		–		6,603		–
Balance, December 31, 2022	**$**	**1,989,361**	**$**	**589,422**	**$**	**924,099**

During 2022, the Company recognized $42,817 of interest expense on the 2022 Debentures.

(b) Convertible Notes

During 2021, the Company issued unsecured convertible notes (the "Notes") for aggregate proceeds of $3,909,602 (CAD $5,000,000), of which CAD $4,000,000 was issued prior to the RTO (Note 4) and CAD $1,000,000 was issued on September 29, 2021. The Notes accrue a simple rate of interest at 2% per annum, payable semi-annually.

At issuance, the Notes contained the following terms:

(i) If the Company completes an IPO on or before June 30, 2022, the Notes mature on the one-year anniversary of the IPO completion date, and are convertible at the option of the holder from the date of completion of the IPO closing until one day preceding the maturity date at a price equal to:

- 15% discount to the share price of the IPO if converted from the date of the IPO Closing until one day preceding the maturity date; or
- 30% discount to the share price of the IPO if automatically converted on the maturity date.

(ii) If the Company does not complete an IPO on or before June 30, 2022, the Notes mature on July 1, 2022 and are convertible at CAD $0.2174 per SVS.

The Company completed its IPO on November 12, 2021, thereby establishing November 12, 2022 as the maturity date and the conversion prices at CAD $0.34 per SVS if converted prior to the maturity date or CAD $0.28 if automatically converted on the maturity date.

As the Notes do not have a fixed conversion price, they do not meet the fixed-for-fixed criteria, and the fair value of the conversion feature is classified as a derivative liability.

At issuance, the estimated value of the conversion feature was determined based on the expected "in-the-money" value of the Notes using the following estimates:

- 70% conversion price to the IPO price;
- 100% probability of an IPO occurring;
- expected time to IPO Closing of 1.38 years; and
- risk-free rate of 0.25%.

The residual debt host portion of the Notes was accreted using an effective interest rate of approximately 3.6% per month. Accretion expense is included in accretion and interest expense in the consolidated statements of loss and comprehensive loss.

(Stated in United States dollars)

On December 31, 2021, the Company estimated the fair value of the derivative liability using the Black-Scholes model based on the following assumptions:

Expected volatility	117%	Expected dividend yield	nil
Expected life	0.9 years	Risk-free interest rate	2%
Share price	CAD $0.80 (1)	Fair value per SVS	CAD $0.52

(1) The market value of the Company's shares on December 31, 2021 of CAD $1.06 net of a 25% discount for lack of marketability.

On August 31 and September 29, 2021, the Company issued an aggregate of 735,750 finders' shares (Note 13) and 735,750 finders' warrants (Note 14) for which the corresponding value was recognized as an issuance cost of the Notes.

The fair value of the finders' shares was determined to be $233,046 (CAD $294,300) based a price of CAD $0.40 per SVS. The fair value of the finders' warrants was determined to be $163,131 using the Black-Scholes model based on the following assumptions:

Expected volatility	142 – 146%	Expected dividend yield	nil
Expected life	2 years	Risk-free interest rate	0.43 – 0.53%
Share price	CAD $0.40	Fair value per warrant	CAD $0.28

The $396,177 aggregate value of the finders' shares and finders' warrants was prorated based on the relative values of the convertible note and derivative liability, the $272,094 amount attributable to the debt portion of the Notes was included as a debt issuance cost and the $124,083 amount attributable to the derivative liability portion was recognized as equity-based compensation in the 2021 consolidated statement of loss and comprehensive loss.

During the period from November 23 to December 2, 2021, the Company issued 455,880 SVS (Note 13) on the conversion of $121,450 (CAD $155,000) principal amount of Notes which was credited to share capital along with $18,900 for the derivative liability portion. In connection with the conversion, the Company recognized a $33,044 loss on convertible debt in the 2021 consolidated statement of loss and comprehensive loss.

On November 12, 2022, the maturity date of the Notes, the Company issued 17,303,571 SVS on the automatic conversion of $3,646,147 (CAD $4,845,000) principal amount of Notes which was credited to share capital along with $2,018,786 for the derivative liability portion.

Immediately prior to the automatic conversion, the Company estimated the fair value of the derivative liability to be $2,018,786 (CAD $2,682,562) using the Black-Scholes model based on the following assumptions:

Expected volatility	29%	Expected dividend yield	nil
Expected life	0 years	Risk-free interest rate	4%
Share price	CAD $0.44 (1)	Fair value per SVS	CAD $0.16

(1) The market value of the Company's shares on November 12, 2022 of CAD $0.58 net of a 25% discount for lack of marketability.

(Stated in United States dollars)

A continuity of the Notes is summarized in the following table:

	Principal amount (CAD)	Debt portion (USD)	Derivative liability (USD)
Balance, December 31, 2020	$ –	$ –	$ –
Recognized in RTO (Note 4)	4,000,000	2,347,717	1,252,621
Recognized September 29, 2021	1,000,000	518,216	266,501
Finders' fees	–	(272,094)	–
Accretion	–	311,445	–
Fair value adjustment	–	–	5,622,712
Conversion	(155,000)	(88,817)	(18,900)
Accrued interest	–	40,658	–
Foreign exchange	–	(11,603)	(38,774)
Balance, December 31, 2021	4,845,000	$ 2,845,522	$ 7,084,160
Accretion	–	995,792	–
Fair value adjustment	–	–	(4,970,947)
Conversion	(4,845,000)	(3,646,147)	(2,018,786)
Accrued interest	–	61,332	–
Foreign exchange	–	(154,509)	(94,427)
Balance, December 31, 2022	**$ –**	**$ 101,990**	**$ –**

During 2022, the Company recognized $65,739 (2021 – $26,288) of interest expense on the Notes. The balance at December 31, 2022 relates to accrued and unpaid interest (Note 23(c)).

(c) 2020 - 2021 Convertible Debentures

During the period from September 3, 2020 to December 3, 2020, PHB issued $690,506 of unsecured convertible debentures (the "Debentures"). During the period from February 12 to March 12, 2021, PHB issued an additional $775,000 of Debentures.

The Debentures bear interest at a rate of 1.25% per annum. Principal and accrued interest, if not converted, is due on the first anniversary date of each of the Debentures. The Debentures contain the following conversion options:

- Automatic Conversion: Qualified Financing – If the Company completes a financing in which $1 million preferred equity securities are issued ("Qualified Financing"), the outstanding Debenture amount will automatically convert in a number of securities determined by dividing the total outstanding Debenture amount by a Capp Price which is defined as the amount per share equal the Applicable Valuation divided by the fully diluted equity units outstanding. The Applicable Valuation is defined as the lessor of (i) $8,000,000 and (ii) 50% of the pre-money valuation used with the Qualified Financing
- Automatic Conversion: Extraordinary Event – If an extraordinary event, such as the sale of all or substantially all of the assets of the Company, merger or corporate reorganization, sale of a least 50% of the Company's outstanding securities or initial public offering, occurs then the outstanding Debenture amount will automatically convert in a number of equity securities of the Company determined by dividing the outstanding amount by the price per unit being paid during the extraordinary event.

(Stated in United States dollars)

- Optional Conversion – If the Company issues any equity securities in a transaction that is not a Qualified Financing, the Debenture holder may, at its option, elect to convert the outstanding Debenture amount into the other equity securities upon the same terms and conditions that apply to the purchasers in such a financing.

During 2021, the Company recognized $10,360 of interest expense on the Debentures. On August 24, 2021, $1,465,506 of Debentures plus $11,885 of accrued interest were converted to common shares of the Company (Note 13(b)(i)).

11. GOVERNMENT LOANS

(a) SBA EIDL

On June 11, 2020, the Company executed a long-term Economic Injury Disaster Loan ("EIDL") agreement with the U.S. Small Business Administration ("SBA") in the amount of $150,000. The SBA EDIL is secured by assets of the Company, bears interest at a rate of 3.75% per annum, requires monthly principal and interest payments commencing October 11, 2022 and matures on June 22, 2050. In 2021, the Government extended the first payment due date from 12 months to 24 months from the date of the loan and in March 2022, the first payment date was further extended to commence in October 2022.

An effective interest rate of 17.8%, which approximates the cost of corporate bonds with similar terms, was used to discount the expected future cash flows of the loan and determine the carrying value at the date of entering into the loan agreement. The result of the extensions was an increase in the blended monthly payment amount from $731 per month to $783 per month and a $6,100 reduction (Note 19) in the amortized cost of the loan.

A continuity of the SBA EDIL is summarized in the following table:

		2022		2021
Balance, beginning of year	$	**18,530**	$	15,517
Modification		**(6,100)**		–
Accretion		**2,414**		3,013
Accrued interest		**13,896**		–
Repayment		**(2,193)**		–
Balance, end of year	$	**26,547**	$	18,530

During 2022, the Company recognized $8,271 (2021 – $5,625) of related interest expense (Note 19) in the consolidated statement of loss and comprehensive loss.

(b) PPP Loan

On February 16, 2021, the Company executed a second PPP Loan agreement with the Bank of Rantoul. The Company obtained a $197,314 PPP loan bearing interest at a rate of 1% per annum, payable at maturity on February 16, 2026.

An effective interest rate of 17.8%, which approximates the cost of corporate bonds with similar terms, was used to discount the expected future cash flows of each PPP Loan and determine the carrying value at the date of entering into the loan agreement.

The Company qualified for full forgiveness of the PPP Loan as the loan proceeds were utilized on specific U.S.-based expenditures including payroll and benefits of employees, rent and utilities during an 8 to 12-week period commencing at the date of signing of each PPP Loan. The benefit of low interest and the carrying amount of the PPP Loan on the date of forgiveness (August 24, 2021) were recognized as $206,901 of government income in the 2021 consolidated statement of loss and comprehensive loss.

(Stated in United States dollars)

A continuity of the PPP loan is summarized in the following table:

		2022		2021
Balance, beginning of year	$	**–**	$	–
Loan proceeds, net of fees		**–**		197,314
Benefit of low interest loan		**–**		(72,405)
Accretion		**–**		9,587
Government income for loan forgiveness		**–**		(134,496)
Balance, end of year	$	**–**	$	–

During 2022, the Company recognized $nil (2021 – $1,022) of related interest expense (Note 19) in the consolidated statement of loss and comprehensive loss.

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITY

Right-of-use assets		Cost		Accumulated depreciation		Carrying amount
Balance, December 31, 2020	$	–		–		–
Additions		583,786		–		583,786
Depreciation expense		–		(19,255)		(19,255)
Balance, December 31, 2021		583,786	$	(19,255)	$	564,531
Depreciation expense		–		(116,748)		(116,748)
Balance, December 31, 2022	**$**	**583,786**	**$**	**(136,003)**	**$**	**447,783**

During 2022, the Company recognized $145,025 of depreciation expense comprised of $116,748 on right-of-use assets and $28,277 on other property and equipment (2021 – $32,287 comprised of $19,255 on right-of-use assets and $13,032 on other property and equipment).

Lease liability		**2022**		2021
Balance, beginning of year	$	**570,673**	$	–
Addition		**–**		583,786
Lease payments		**(145,982)**		(22,701)
Imputed interest		**52,793**		9,588
Balance, end of year		**477,484**		570,673
Current portion		**(105,823)**		(92,836)
Non-current portion	$	**371,661**	$	477,837

During 2021, the Company entered into an office lease with a term of 60 months to October 2026 and an equipment lease with a term of 36 months to November 2024. The lease liability amounts at inception were determined using incremental borrowing rates of 7.5% to 11%.

As at December 31, 2022, the remaining expected annual undiscounted lease payments are as follows:

	2023	2024	2025	2026	Total
Annual lease payments	148,811	151,321	150,126	127,180	577,438

(Stated in United States dollars)

13. SHARE CAPITAL

(a) Authorized – an unlimited number of SVS and MVS, with each MVS equivalent to 100 SVS

(b) Equivalent SVS Issued

	Number of shares		Amount
Balance, December 31, 2020	–	$	9,022,788
Debt conversions (i)	4,023,567		2,766,968
Carrying value of TPHC	8,300,000		133,847
Elimination of PHB shares and TPCH equity (Note 4)	(4,023,567)		(133,847)
Shares issued to effect RTO (Note 4)	45,069,173		2,632,356
Finders' shares (Note 10(b))	735,750		233,046
Convertible notes (Note 10(b))	455,880		140,350
IPO (ii)	25,875,000		8,219,836
IPO agent shares (ii)	905,625		287,694
Exercise of warrants (iii)	959,520		524,459
Share issue costs (ii)	–		(1,190,667)
Balance, December 31, 2021	82,300,948	$	22,636,830
Convertible notes (Note 10(b))	17,303,571		5,664,933
Exercise of warrants (iv)	301,680		134,295
Bought-deal public offering (v)	10,062,500		6,287,589
Unit private placement (vi)	2,000,272		425,367
Share issue costs (v) and (vi)	–		(841,070)
Balance, December 31, 2022	**111,968,971**	**$**	**34,307,944**

(i) Prior to the completion of the RTO (Note 4), PHB settled $2,507,920 of debt through the issuance of 4,023,567 equivalent amount of SVS with a value of $2,766,968 and recognized a loss on debt settlement which has been net against other income in the consolidated statement of loss and comprehensive loss. The $2,507,920 amount of debt settled was comprised of short-term debt (Note 9(e)), convertible debentures (Note 10(c)), amounts due to related parties (Note 20(a),(b),(c)) and $132,985 of accounts payable and accrued liabilities

(ii) On November 12, 2021, the Company completed its IPO through the sale of 22,500,000 SVS at a price of CAD $0.40 per SVS (the "Offering Price") for gross proceeds of $7,162,754 (CAD $9,000,000).

Canaccord Genuity Corp. (the "Agent") acted as agent in connection with the IPO. In consideration for its services under the IPO, the Agent received a cash payment in the amount of CAD $315,000, 787,500 SVS ("Agent shares") and 1,575,000 warrants ("Agent Warrants") exercisable to acquire one SVS at an exercise price of CAD $0.40 per share until November 12, 2023, of which 112,500 Agent Warrants and any SVS issued on the exercise of such Agent Warrants are subject to a hold period and may not be traded until March 13, 2022 except as permitted by applicable securities legislation.

(Stated in United States dollars)

The Agent was also granted an over-allotment option to purchase up to an additional 3,375,000 SVS at the Offering Price (the "Over-Allotment Option") which was exercised in full on November 26, 2021 for gross proceeds of $1,057,082 (CAD $1,350,000). In connection with the over-allotment option exercise, the Agent received a cash payment in the amount of CAD $47,250, 118,125 Agent shares and 236,250 Agent Warrants, exercisable to acquire one SVS at an exercise price of CAD $0.40 per share until November 26, 2023, of which 16,875 Agent Warrants and any SVS shares issued on the exercise of such Agent Warrants are subject to a hold period and may not be traded until March 27, 2022 except as permitted by applicable securities legislation.

The fair value of Agent shares was determined to be $287,967 (CAD $362,250) based on the Offering Price. The fair value of Agent Warrants was determined to be $400,436 using the Black-Scholes model based on the following assumptions:

Expected volatility	123%	Expected dividend yield	nil
Expected life	2 years	Risk-free interest rate	0.93% – 0.98%
Share price	CAD $0.40	Fair value per option	CAD $0.25 – $0.49

The Company recognized $1,190,667 share issue costs related to the IPO, including Agent cash payments, Agent shares, Agent warrants and $214,843 of other issuance expenses.

(iii) On December 17, 2021, the Company issued 959,520 SVS on the exercise of 959,520 Agent Warrants for cash proceeds of $298,776 (CAD $383,808) and allocation of fair value in the amount of $225,683 (Note 14).

(iv) On January 31, 2022, the Company issued 1,680 SVS on the exercise of 1,680 Agent Warrants for cash proceeds of $528 (CAD $672). On July 29, 2022, the Company issued 300,000 SVS on the exercise of 300,000 Performance Warrants for cash proceeds of $58,484 (CAD $75,000). Included in the amount for exercised warrant is $75,283 for the allocation of fair value (Note 14).

(v) On March 15, 2022, the Company closed a bought-deal public offering (“the Offering”) of 10,062,500 SVS at a price of CAD $0.80 per SVS for gross proceeds of $6,287,589 (CAD $8,050,000), including 1,312,500 SVS shares issued to the Agent following the exercise of their over-allotment option. The Agent received a cash fee of $503,007 (CAD $644,000) equal to 8% of the gross proceeds of the Offering plus a $66,391 (CAD $85,000) advisory fee. The Company incurred $218,724 of other share issue costs.

(vi) On December 23, 2022, the Company closed a non-brokered private placement of 2,000,272 units (“the Private Placement”) at a price of CAD $0.50 per unit for gross proceeds of $735,232 (CAD $1,000,136). Each unit is comprised of one SVS and one warrant exercisable at CAD $0.80 per SVS until December 23, 2025. If at any time following the expiry of a six-month contractual hold period, the closing price of the Company’s shares on the TSX-V is greater than CAD $1.20 for 20 or more consecutive trading days, the Company may give notice to the holders of unexercised warrants that the warrants will expire on the 30th business day following the date of such notice.

The unit proceeds were allocated $425,367 (CAD $578,626) to share capital and $309,865 (CAD $421,510) to warrants on the basis of their relative fair values.

The fair value of warrants was determined using the Black-Scholes model based on the following assumptions:

Expected volatility	155%	Expected dividend yield	nil
Expected life	3 years	Risk-free interest rate	3.68%
Share price	CAD $0.29	Fair value per warrant	CAD $0.21

(Stated in United States dollars)

The Company paid $20,494 (CAD $27,878) of finders' fees and incurred $32,454 of other share issue costs.

(c) Escrowed equity instruments

Pursuant to an escrow agreement dated October 29, 2021 in connection with the Company's IPO, the following equity instruments are held in escrow at December 31, 2022:

	SVS	MVS	Performance warrants exercisable into SVS	Performance warrants exercisable into MVS	Stock options exercisable into SVS
Balance, December 31, 2022	**51,217**	**130**	**81,000**	**247,500**	**365,815**
Scheduled release:					
May 12, 2023	10,243	26	16,200	49,500	73,163
November 12, 2023	10,243	26	16,200	49,500	73,163
May 12, 2024	10,243	26	16,200	49,500	73,163
November 12, 2024	20,488	52	32,400	99,000	146,326

14. WARRANTS

Exercisable into SVS	Weighted average exercise price (CAD)	Number of warrants	Amount
Balance, December 31, 2020	$ –	–	$ –
Issued			
Finders' warrants (Note 10(b))	0.40	735,750	163,131
Agent warrants (Note 13(b)(ii))	0.40	1,811,250	400,436
Performance warrants (a)	0.25	9,000,000	2,247,305
Employee warrants (b)	0.40	930,825	233,938
	0.29	12,477,825	3,044,810
Exercised			
Agent warrants (Note 13(b)(iii))	(0.40)	(959,520)	(225,683)
Balance, December 31, 2021	$ 0.28	11,518,305	$ 2,819,127
Issued			
Unit warrants (Note 13(b)(vi))	0.80	2,000,272	309,865
Exercised			
Agent warrants (Note 13(b)(iv))	(0.25)	(1,680)	(373)
Performance warrants (Note 13(b)(iv))	(0.25)	(300,000)	(74,910)
Balance, December 31, 2022	**$ 0.36**	**13,216,897**	**$ 3,053,709**

(Stated in United States dollars)

Exercisable into MVS		Weighted average exercise price (CAD)	Number of warrants		Amount
Balance, December 31, 2020	$	–	–	$	–
MVS warrants (a)		1.00	180,000		–
Balance, December 31, 2021 and 2022	**$**	**1.00**	**180,000**	**$**	**–**

(a) On August 31, 2021, the Company issued 9,000,000 SVS performance warrants and 180,000 MVS warrants to certain officers and employees of the Company.

Each SVS performance warrant entitles the holder to purchase one SVS of the Company at an exercise price of CAD $0.25 per SVS until November 12, 2026. Each MVS warrant entitles the holder to purchase one MVS of the Company at an exercise price of CAD $1.00 per MVS until August 31, 2026.

The fair value of 9,000,000 SVS performance warrants was determined to be $2,247,305 and the fair value of the 180,000 MVS warrants was determined to be $nil using the Black-Scholes model based on the following assumptions:

Expected volatility	122%	Expected dividend yield	nil
Expected life	5.2 years	Risk-free interest rate	0.84%
Share price	CAD $0.40	Fair value per option	CAD $0.35

The Company recognized $2,247,305 as equity-based compensation in the 2021 consolidated statement of loss and comprehensive loss.

(b) On November 1, 2021, the Company issued 930,825 warrants to employees of the Company. Each warrant entitles the holder to purchase one SVS of the Company at an exercise price of CAD $0.25 per SVS until November 1, 2026.

The fair value of 930,825 warrants was determined to be $233,938 using the Black-Scholes model based on the following assumptions:

Expected volatility	107%	Expected dividend yield	nil
Expected life	5 years	Risk-free interest rate	1.5%
Share price	CAD $0.40	Fair value per option	CAD $0.31

The Company recognized $233,938 as equity-based compensation in the 2021 consolidated statement of loss and comprehensive loss.

(c) Information about warrants outstanding as at December 31, 2022 is summarized below:

	Exercise price (CAD)	Number outstanding	Weighted average life remaining (years)	Number exercisable
$	0.80	2,000,272	3.0	2,000,272
	0.40	2,516,625	1.9	2,516,625
	0.25	8,700,000	3.9	6,049,999
$	0.36	13,216,897	3.4	10,566,896
$	1.00	180,000	4.7	–

(Stated in United States dollars)

15. STOCK OPTIONS AND RESTRICTED SHARE UNITS

(a) Stock options

	Weighted average exercise price (CAD)	Number of options
Balance, December 31, 2020	$ –	–
Granted (i)	0.65	785,000
Balance, December 31, 2021	0.65	785,000
Granted (ii)	0.87	440,000
Granted (iii)	0.44	801,287
Forfeited	(0.87)	(210,000)
Balance, December 31, 2022	**$ 0.59**	**1,816,287**

Information about stock options outstanding as at December 31, 2022 is summarized below:

Exercise price (CAD)	Number outstanding	Weighted average life remaining (years)	Number exercisable
$ 0.44	801,287	4.0	60,000
0.65	785,000	3.4	255,500
0.87	230,000	2.1	165,000
$ 0.59	1,816,287	3.5	480,500

(i) On December 2, 2021, the Company granted 585,000 stock options to certain directors of the Company. Each stock option entitles the holder to purchase one SVS of the Company at an exercise price of CAD $0.65 per SVS until December 2, 2026. The stock options vest 30% on December 2, 2022, 30% on December 2, 2023 and 40% on December 2, 2024.

On December 2, 2021, the Company granted 200,000 stock options to an investor relations ("IR") firm. Each stock option entitles the holder to purchase one SVS of the Company at an exercise price of CAD $0.65 per SVS until December 2, 2024. The stock options vest 20% every six months from the date of grant to June 2, 2024.

The grant date fair value of the stock options was determined to be $319,469 using the Black-Scholes model based on the following assumptions:

Expected volatility	108% – 121%	Expected dividend yield	nil
Expected life	3 to 5 years	Risk-free interest rate	1.02% – 1.35%
Share price	CAD $0.68 to CAD $1.06	Fair value per option	CAD $0.48 - $0.82

(ii) On January 26, 2022, the Company granted 440,000 stock options exercisable at CAD $0.87 per SVS until January 26, 2025 to the founder and former CEO of RightRice® and four RightRice® team members who joined the Company. Vesting terms are as follows:

- 120,000 stock options vested immediately;
- 200,000 stock options vest 25% every three months from the grant date to January 23, 2023;
- 120,000 stock options vest one-third on the first, second and third anniversaries of the grant date.

The grant date fair value of the stock options was determined to be $299,151 (CAD $377,110) using the Black-Scholes model based on the following assumptions:

(Stated in United States dollars)

Expected volatility	172%	Expected dividend yield	nil
Expected life	3 years	Risk-free interest rate	1.42%
Share price	CAD $0.98	Fair value per option	CAD $0.72

(iii) On July 29, 2022, the Company granted the following stock options to purchase SVS of the Company:

- 436,590 stock options exercisable at CAD $0.44 per SVS to two investor relations advisors of which 196,590 stock options have a five-year term from the grant date and vest semi-annually in six equal tranches over three years from the grant date and 240,000 stock options have a three-year term from the grant date and vest quarterly in four equal tranches over one year from the grant date.
- 60,000 stock options to a director of the Company exercisable at CAD $0.44 per SVS for a five-year term from the grant date. The stock options vest semi-annually in six equal tranches over three years from the grant date.
- 304,697 stock options to certain employees and contractors of the Company exercisable at CAD $0.44 per SVS for a five-year term from the grant date. The stock options vest quarterly in 12 equal tranches over three years from the grant date.

The grant date fair value of the stock options was determined to be $256,815 (CAD $329,340) using the Black-Scholes model based on the following assumptions:

Expected volatility	178%	Expected dividend yield	nil
Expected life	5 years	Risk-free interest rate	2.66%
Share price	CAD $0.44	Fair value per option	CAD $0.41

(b) Restricted share units

On July 29, 2022, the Company granted 2,516,434 restricted share units (“RSUs”) to certain directors, officers and employees of the Company to purchase SVS of the Company. The RSUs have a five-year term from the grant date and vest annually in three equal tranches over three years from the grant date.

An RSU entitles the holder to receive one SVS for each RSU after the specified vesting period. Upon settlement, holders will receive (i) one SVS in respect of each vested RSU or (ii) subject to approval of the Company’s Board of Directors, a cash payment determined by multiplying the number of RSUs settled by the market price of the Company’s shares on the settlement date or (iii) a combination of (i) and (ii).

The grant date fair value of these RSUs was determined to be $863,405 based on the $0.34 (CAD $0.44) market price of the Company’s common shares on the grant date.

(c) Equity-based compensation

During 2022, the Company recognized $730,498 (2021 – $20,921) of equity-based compensation related to stock options and RSUs. The remaining unrecognized fair value at December 31, 2022 is $854,200.

(Stated in United States dollars)

16. PER SHARE AMOUNTS

For the years ended December 31		2022		2021
Net loss	$	**(7,805,766)**	$	(17,600,388)
Weighted average number of shares outstanding		**92,819,101**		19,702,659
Loss per share	$	**(0.08)**	$	(0.89)

In accordance with RTO accounting guidance, for the purpose of computing per share amounts for the year ended December 31, 2021, the number of shares outstanding for the period from the beginning of the year to the date of the RTO shall be deemed to be the number of shares issued by the legal acquiree (PHB) multiplied by the exchange ratio established in the Transaction. For the period from the date of the RTO to the end of year, the number of shares to be used in per share calculations is the actual number of shares of the legal acquirer (TPHC) outstanding in that period.

The effect of convertible debt, warrants, stock options and RSUs is anti-dilutive in loss periods.

17. REVENUES AND SEGMENT REPORTING

The Company earns revenue from product sales to Canadian and U.S. customers, which is derived from one reportable operating segment. All of the Company's non-current assets are located in the U.S.

Gross revenue by geographical area is summarized as follows:

For the years ended December 31		2022		2021
Canada	$	**213,895**	$	23,737
U.S.		**11,997,848**		2,640,776
	$	**12,211,743**	$	2,664,513

During 2022, the Company derived approximately 54% of its gross revenues from three direct customers and direct-to-consumer e-commerce platforms (2021 – 71% from two direct customers and direct-to-consumer e-commerce platforms), each with gross revenues greater than 10%.

For the years ended December 31	2022	2021
Customer 1	**12%**	13%
Customer 2	**16%**	58%
Customer 3	**26%**	–
	54%	71%

Net revenues by sales channel are summarized as follows:

For the years ended December 31		2022		2021
Wholesale	$	**5,768,077**	$	163,189
Non-traditional		**330,805**		1,914,853
e-Commerce		**2,881,887**		243,229
	$	**8,980,769**	$	2,321,271

(Stated in United States dollars)

18. SELLING, GENERAL AND ADMINISTRATIVE

For the years ended December 31		**2022**		2021
Advertising and marketing	$	**3,710,513**	$	2,089,302
Payroll and recruiting		**3,401,339**		1,775,183
Professional fees		**2,732,965**		2,014,211
Outbound freight and fulfillment		**1,491,295**		305,405
General office expenses		**907,179**		571,859
	$	**12,243,291**	$	6,755,960

19. INTEREST AND ACCRETION

For the years ended December 31		**2022**		2021
Short-term debt (Note 9)	$	**170,375**	$	128,693
Convertible debt (Note 10)		**110,007**		36,648
Government loans (Note 11)		**8,271**		6,647
Imputed interest on lease liability (Note 12)		**52,793**		9,588
Accretion of short-term debt (Note 9)		**165,006**		–
Accretion of convertible debt (Note 10)		**1,009,144**		311,445
Accretion of government loans (Note 11)		**2,414**		12,600
Modification of government loans (Note 11)		**(6,100)**		–
Other interest and bank charges		**2,506**		49,692
	$	**1,514,416**	$	555,313

20. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and initially measured at fair value.

		2022		2021
Deferred compensation (a)				
Balance, beginning of year	$	**–**	$	383,228
Current year expense		**–**		61,895
Converted to shares		**–**		(445,123)
Balance, end of year		**–**		–
Payable for reimbursement of corporate expenses (b)				
Balance, beginning of year		**59,924**		101,083
Converted to shares		**–**		(41,159)
Repayment		**(53,972)**		–
Balance, end of year		**5,952**		59,924
Due to related parties	$	**5,952**	$	59,924

(a) Deferred compensation was due to PHB's founding members and was deferred to assist in funding operations. During 2021, the balance of deferred compensation payable was converted into 1,831,625 equivalent number of SVS (Note 13(b)(i)).

(Stated in United States dollars)

(b) During 2021, $41,159 of accounts payable for the reimbursement of corporate expenses were converted into 169,364 equivalent number of SVS (Note 13(b)(i)).

(c) During 2022, the Company incurred $nil (2021 – $10,296) of consulting fees charged by a founding member of PHB and $97,345 (2021 – $16,632) of consulting fees charged by the sibling of a founding member. During 2021, the Company converted $148,435 of amounts owing to these related parties into 614,658 equivalent number of SVS (Note 13(b)(i)).

As at December 31, 2022, accounts payable and accrued liabilities included $30,000 (2021 – $1,310) due to these related parties.

(d) A founder of PHB is also a shareholder in another company that sells services to the Company. During 2022, the Company was charged $nil (2021 – $16,164) by the related company. As at December 31, 2022, accounts payable and accrued liabilities included $nil (2021 – $nil) due to the related company.

(e) The Company's Chief Executive Officer and Co-founder, Julia Stamberger, acquired 76,000 units under the Private Placement (Note 13(b)(vi)) for a total purchase price of CAD $38,000 and 2022 Debentures (Note 10(a)) with a face value of CAD $28,000.

(f) The Company's Chief Operating Officer, Susan Walters-Flood, acquired 2022 Debentures (Note 10(a)) with a face value of CAD $5,600.

(g) Key management compensation

The Company considers its key management personnel to consist of its officers and directors. Key management compensation is comprised of the following:

For the years ended December 31		**2022**		2021
Salaries and benefits	$	**995,000**	$	629,994
Equity-based compensation		**311,013**		251,925
	$	**1,306,013**	$	881,919

(h) Retirement plan

The Company maintains a 401(k) plan (the "Plan") which allows substantially all full-time employees to participate in the Plan. During 2022, the Company contributed $55,386 (2021 – $32,380) to the Plan on behalf of its employees.

21. TAXES

The Company is considered to be a U.S. entity for tax purposes as a result of the corporate inversion that occurred in connection with the RTO completed on August 24, 2021 (Note 4). A corporate inversion occurs when a non-U.S. corporation acquires substantially all of the equity interests or assets of a U.S. corporation or partnership, if, after the acquisition, former equity owners of the U.S. corporation or partnership own a specified level of equity in the non-U.S. corporation. This generally occurs if the former equity owners of the U.S. corporation own 80% or more of the equity in the non-U.S. acquiring entity (the "80% identity"). The tax benefits of the inversion are limited by treating the non-U.S. acquiring entity as a domestic U.S. entity for U.S. tax purposes. Management has determined that the Company is subject to the 80% identity rule with respect to the RTO.

(Stated in United States dollars)

The following table reconciles the expected tax recovery at the statutory tax rate to the expense in the statement of loss and comprehensive loss:

		2022		2021
Net loss before taxes	$	**(7,794,977)**	$	(17,600,388)
Statutory tax rate		**28.5%**		23%
Expected tax recovery		**(2,221,959)**		(4,048,090)
Non-deductible items		**255,203**		1,903,314
Tax rate and other differences		**(464,617)**		(477,580)
Tax benefit not recognized		**2,442,162**		2,622,356
Tax expense	$	**10,789**	$	–

Details of unrecognized deferred tax assets (liabilities) are as follows:

		2022		2021
Property and equipment	$	**2,722**	$	1,873
Intangible assets and goodwill		**80,925**		–
Convertible debt		**51,249**		1,462,183
Share issue costs		**–**		217,784
Non-capital losses		**4,929,623**		940,516
	$	**5,064,519**	$	2,622,356

Details of unrecognized deductible temporary differences are as follows:

		2022		2021
Property and equipment	$	**9,551**	$	6,142
Intangible assets and goodwill		**283,897**		–
Convertible debt		**179,789**		6,357,320
Share issue costs		**–**		946,891
Non-capital losses		**17,293,886**		3,430,480
	$	**17,767,123**	$	10,740,833

The Company's estimated $17,293,886 of U.S. loss carry-forwards do not expire.

22. FINANCIAL INSTRUMENTS

(a) Risk management

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Company employs risk management strategies to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor these risks.

(Stated in United States dollars)

(b) Fair value of financial instruments

The fair values of cash, trade accounts receivable, accounts payable and accrued liabilities, short-term debt and due to related parties approximate their carrying values due to the short-term maturity of those instruments. The fair values of convertible debt, derivative liability and government loans approximate their carrying values as they bear interest at effective rates or fixed rates consistent with market rates for similar debt.

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities.

Level 2: Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).

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.

(c) 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. The Company maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk on its cash as it is held with reputable financial institutions in the U.S. and Canada.

The principal markets for the Company's products are in the U.S., however, a portion of sales are to foreign distributors. Management performs continuing credit evaluations of its customers and generally does not require collateral. Historically, the Company has not experienced significant losses related to receivables from individual customers.

The Company has taken the approach of reviewing its trade receivables and estimating an expected credit loss provision based on the length of past due, payment history, and total sales. This provision is considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available. The Company's maximum exposure to credit risk for accounts receivable is equal to the carrying value of accounts receivable on the consolidated statements of financial position shown net of an appropriate allowance for expected credit losses.

Significant changes in industry conditions will increase the risk of not collecting receivables. Management believes the risk is generally mitigated by the size and reputation of the companies to which they extend credit.

As at December 31, 2022 and 2021, the Company's trade accounts receivable were aged as follows:

		2022		2021
Less than 60 days overdue	$	**816,610**	$	74,931
Greater than 60 days overdue		**202,197**		55,580
		1,018,807		130,511
Less allowance for expected credit losses		**(15,281)**		(19,069)
Trade accounts receivable	$	**1,003,526**	$	111,442

(Stated in United States dollars)

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and global economic conditions. The Company manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements. Senior management regularly reviews levels of sales and monitors obligations and customer credit facilities.

As at December 31, 2022, the Company's current liabilities exceed its current assets. The Company's liabilities as at December 31, 2022 include obligations relating to its issuance of the 2022 Debentures with a face value of $1,838,810 (CAD $2,490,600) (Note 10(a)) which mature on October 20, 2025. On the maturity date, the Company has the option to make a cash settlement offer to the 2022 Debenture holders should it have sufficient cash and if the Company considers such payment to be in the best interests of the Company taking into account the Company's liquidity risk management strategy, or to convert the principal amount into units at CAD $0.55 per unit.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual payments:

As at December 31, 2022	Carrying amount $	Less than 1 year $	1 to 2 Years $	3 to 5 Years $	5 years + $	Total contractual amount $
Accounts payable and accrued liabilities	4,100,413	4,100,413	–	–	–	4,100,413
Promissory note (Note 9(a))	1,093,290	1,048,904	–	–	–	1,048,904
Credit facility (Note 9(b))	1,807,000	1,807,000	–	–	–	1,807,000
Convertible debentures (Note 10(a))	589,422	42,923	–	1,838,810	–	1,881,733
Convertible notes (Note 10(b))	101,990	101,990	–	–	–	101,990
Government loans (Note 11(a))	26,547	–	–	7,345	142,655	150,000
Lease liability (Note 12)	477,484	148,811	151,321	277,306	–	577,438
Due to related parties (Note 20)	5,952	5,952	–	–	–	5,952
	8,202,098	7,255,993	151,321	2,123,461	142,655	9,673,430

(e) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent that changes in market interest rates impact its loans and debt when new terms are negotiated. The Company's current debt carries fixed rates of interest. The Company had no interest rate swaps or financial contracts in place as at or during the years ended December 31, 2022 and 2021.

(f) Currency risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Company is exposed to foreign currency risk on the following USD equivalent of financial instruments denominated in CAD:

As at December 31		2022		2021
Cash	$	**117,892**	$	4,870,424
Trade accounts receivable		**36,286**		–
Accounts payable and accrued liabilities		**(859,875)**		(684,943)
Convertible debt		**(691,412)**		(2,845,522)
Derivative liability		**–**		(7,084,160)
Net monetary liabilities	$	**(1,397,109)**	$	(5,744,201)

Assuming all other variables remain constant, a fluctuation of +/- 1% in the Bank of Canada CAD to USD exchange rate would increase or decrease net loss for the year by approximately $139,700 (2021 – $574,400).

To date, the Company has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates.

(g) Capital management

The Company’s capital management policy is to maintain a good capital base that optimizes the Company’s ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its shareholders. The Company's officers are responsible for managing the Company's capital and do so through management meetings and periodic board meetings including reviews of financial information, budgets and forecasts. The Company considers its capital structure to include the following:

As at December 31		2022		2021
Short-term debt (Note 9)	$	**2,900,290**	$	–
Convertible debt (Note 10)	$	**691,412**	$	2,845,522
Government loans (Note 11)	$	**26,547**	$	18,530
Lease liability (Note 12)	$	**477,484**	$	570,673
Share capital (Note 13)	$	**34,307,944**	$	22,636,830

The Company monitors capital based on its current working capital, projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Company prepares annual operating budgets and business plans, which are updated as necessary. The annual and updated budgets are prepared by the Company’s management and reviewed by the Board of Directors. The budget results are regularly reviewed and updated as required.

In order to maintain or adjust the capital structure, the Company may issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Company's ability to raise additional debt or equity financing is impacted by external factors, including global economic conditions. The Company continually monitors economic and general business conditions.

The Company's capital management policy has not changed during the years ended December 31, 2022 and 2021.

23. SUBSEQUENT EVENTS

(a) In January 2023, the Company exercised the right of setoff in connection with indemnification claims it has asserted against the Seller and has withheld payment of Promissory Note 2 which was payable on January 14, 2023 (Note 9(a)). The Seller disputes the Company's indemnification claims and the Company's entitlement to exercise the right of setoff. The Company has commenced legal action, the outcome of which is not yet known.

(b) In February and March 2023, the Company closed two tranches of a private placement of unsecured, non-transferable convertible debentures (the "2023 Debentures") for aggregate gross proceeds of approximately $2,932,600 (CAD $4,004,600) representing the principal amount.

The 2023 Debentures bear interest at 10% per annum, payable semi-annually in arrears and mature three years from the date of issuance. Interest may be paid at the election of the Company in cash or converted into SVS at the Interest Conversion Price.

At any time prior to the maturity date, holders of the 2023 Debentures may convert all or a portion of the principal amount into units of the Company at CAD $0.50 per unit where each unit is comprised of one SVS and one warrant exercisable into one SVS at an exercise price of CAD $0.80 at any time prior to the maturity date.

At any time that is one year after the date of issuance and prior to the maturity date, the Company may provide a redemption notice to the 2023 Debenture holders to redeem, by cash payment, the principal amount of the 2023 Debentures and all accrued and unpaid interest plus a redemption penalty of 8% of the principal amount (the "Redemption Penalty"). After receipt of the redemption notice, holders may elect to convert all or a portion of the principal amount into units at CAD $0.50 per unit and convert all or a portion of accrued and unpaid interest into SVS at the Interest Conversion Price. The Redemption Penalty shall be paid in cash.

On the maturity date, the Company has the option to:

- repay in cash the principal amount plus all accrued and unpaid interest; or
- convert the principal amount into units at the lesser of (i) CAD $0.50 per unit and (ii) the maximum Discounted Market Price (as defined under the policies of the TSX-V) based on the closing price of the Company's shares on the date immediately preceding the maturity date; and
- repay all accrued and unpaid interest in cash or convert into SVS at the Interest Conversion Price.

The 2023 Debentures, SVS, warrants and underlying securities of the Company issuable on conversion or exercise are subject to a four-month hold period. In addition, the SVS, warrants and underlying securities will not be transferable or saleable until August 29, 2023.

The Company paid $8,314 (CAD $11,343) of finders and broker fees in connection with the private placement.

(c) On March 31, 2023, the Company issued a promissory note in the principal amount of $99,475 (CAD $134,625) in respect of unpaid interest on the Notes (Note 10(b)). The promissory note bears interest at 10% per annum commencing on November 14, 2022 until the full and final payment of the principal amount on or before March 31, 2024.

(d) On April 14, 2023, the Company granted the following stock options exercisable at CAD $0.62 per SVS and 645,363 RSUs:

- 48,387 stock options to an officer of the Company for a five-year term from the grant date and vesting annually in three equal tranches over three years from the grant date;
- 592,993 stock options to employees and contractors of the Company for a five-year term from the grant date of which 36,129 stock options vest immediately and 556,864 stock options vest quarterly in 12 equal tranches over three years from the grant date; and
- 353,428 RSUs to certain officers of the Company and 241,935 RSUs to employees of the Company, all of which vest annually in three equal tranches over three years from the grant date.

(e) In April 2023, the Company entered into binding agreements to settle eleven outstanding debts (the "Debt Settlements") for a total amount of $243,297 and CAD$107,560 (for combined amount of approximately $323,327 (CAD $434,551)). Subject to the approval of the TSXV, the Debt Settlements will consist of the issuance of 924,576 SVS to the creditors at a deemed price of CAD $0.47 per SVS. The SVS issued in connection with the Debt Settlements will bear a statutory four-month hold period from the date of issuance in accordance with applicable securities legislation and will also be subject to restrictions on transfer and will be released from such restrictions in tranches of 15% on the dates that are six months, seven months, eight months, nine months, 10 months and 11 months from the date of issuance, and a remaining tranche of 10% on the date that is 12 months from the date of issuance.

(f) In April 2023, the Company retained a third-party securities dealer to provide market-making services in accordance with TSXV policies. The securities dealer will trade the Company's SVS on the TSXV to maintain an orderly market and improve the liquidity and depth of the SVS. As consideration for the services provided, the Company will pay the securities dealer a fee of $7,500 per month for an initial minimum term of 12 months, after which the agreement may be terminated by the Company at any time upon 30 days' written notice.