

Condensed Consolidated Interim Financial Statements of

HAPBEE TECHNOLOGIES, INC.

For the 3- and 9-Month periods ended September 30, 2022

Comparative periods include the 3- and 9-Month periods ended September 30, 2021 and the year-ended December 31, 2021

(Expressed in U.S. dollars)

(Unaudited)

HAPBEE TECHNOLOGIES, INC.

Condensed Consolidated Interim Financial Statements
3- and 9-Month Periods Ended September 30, 2022

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Hapbee Technologies, Inc. for the 3- and 9-Month periods ended September 30, 2022 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indication that an auditor has not reviewed the condensed consolidated interim financial statements.

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

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the condensed consolidated interim financial statements by an entity's auditor.

NOTICE TO READER

The interim financial statements for the period ending September 30, 2022 are being refiled to include the Notes to the Condensed Consolidated Interim Financial Statements. No other content has changed.

Hapbee Technologies, Inc.
Condensed Consolidated Interim Statements of Financial Position
As at September 30, 2022 and December 31, 2021

Expressed in U.S. dollars

| | September 30, 2022 (Unaudited) \$ | December 31, 2021 (Audited) \$ |
|---|---|--------------------------------------|
| Assets | | |
| Current assets | | |
| Cash | 279,368 | 3,630,119 |
| Receivables | 36,529 | 91,926 |
| Inventory (note 4) | 323,945 | 283,596 |
| Prepaid expenses | 40,245 | - |
| | 680,087 | 4,005,641 |
| Intangible assets (note 5) | 2,123,987 | 2,283,235 |
| Total assets | 2,804,074 | 6,288,876 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 7) | 1,559,537 | 945,867 |
| Product warranty liability | 57,786 | 52,805 |
| Unearned revenue | 438,223 | 579,352 |
| Total current liabilities | 2,055,546 | 1,578,024 |
| Warrant liability (note 13) | 350,029 | 3,102,566 |
| Total liabilities | 2,405,575 | 4,680,590 |
| Equity | | |
| Share capital (note 9) | 13,487,353 | 13,341,355 |
| Reserves | 6,299,483 | 5,702,819 |
| Accumulated other comprehensive income | 494,271 | 33,171 |
| Accumulated deficit | (19,882,608) | (17,469,059) |
| Total shareholders' equity | 398,499 | 1,608,286 |
| Total liabilities and shareholders' equity | 2,804,074 | 6,288,876 |

Nature of operations and going concern (note 1)
Basis of presentation (note 2)
Commitments and contingencies (note 17)
Subsequent events (note 18)

Approved on behalf of the Board of Directors on December 8, 2022.

"Michael Matysik"
Director

"Robert Dzisiak"
Director

Hapbee Technologies, Inc.
Condensed Consolidated Interim Statements of Financial Position
As at September 30, 2022 and December 31, 2021

Expressed in U.S. dollars

| | Three months Ended September 30, 2022 | Three months Ended September 30, 2021 | Nine months Ended September 30, 2022 | Nine months Ended September 30, 2021 |
|--|--|--|---|---|
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | \$ | \$ | \$ | \$ |
| Revenues | | | | |
| Sales on products | 326,604 | 437,835 | 993,407 | 1,147,311 |
| Cost of goods sold | (159,502) | (205,959) | (732,178) | (576,782) |
| Royalty fees | (26,827) | - | - | - |
| | 140,275 | 231,876 | 261,229 | 570,529 |
| Other income | | | | |
| Advertising and other income | - | 105 | - | 6,855 |
| Expenses | | | | |
| Amortization of intangible assets | 52,999 | 53,124 | 159,248 | 158,997 |
| Consulting | 491,372 | 828,590 | 2,816,392 | 1,911,579 |
| General and administrative (note 17) | 214,972 | 492,982 | 1,642,740 | 1,486,080 |
| Payroll and staff benefits | 64,996 | 85,726 | 157,425 | 157,425 |
| Product development costs | 54,293 | 45,000 | 729,508 | 244,510 |
| Professional fees | 25,629 | 71,875 | 99,866 | 151,583 |
| Royalty fees | - | 72,000 | 133,988 | 223,805 |
| Share-based compensation (note 10) | 231,975 | 321,886 | 703,090 | 1,380,797 |
| Total operating expenses | (1,136,236) | (1,971,183) | (6,442,257) | (5,714,776) |
| Operating loss before other item | (995,961) | (1,739,202) | (5,889,615) | (5,137,392) |
| Other item: | | | | |
| Change in fair value of warrant liability (note 13) | - | 125,679 | 3,471,306 | 405,685 |
| Net loss for the period | (995,961) | (1,613,523) | (2,418,309) | (4,731,707) |
| Other comprehensive income / (loss) | - | (12,357) | 497,812 | 855 |
| Net loss and comprehensive loss for the period | (995,961) | (1,625,880) | (1,920,497) | (4,730,852) |
| Loss per share – basic and diluted (note 12) | (\$0.01) | (\$0.03) | (\$0.03) | (\$0.10) |
| Weighted-average number of shares outstanding - basic and diluted | 74,697,850 | 48,860,028 | 74,697,850 | 48,529,927 |

Hapbee Technologies, Inc.
Condensed Consolidated Interim Statements of Changes in Equity
For the nine months ended September 30, 2022 and 2021

Expressed in U.S. dollars

| | Number of Subordinated Voting Shares | Subordinated Voting Shares | Number of Multiple Voting Shares | Multiple Voting Shares | Accumulated Other Comprehensive Income | Reserves | Deficit | Total (Unaudited) |
|---|---|----------------------------------|--|------------------------------|---|------------------|---------------------|----------------------|
| | | \$ | | \$ | \$ | \$ | \$ | \$ |
| Balance, January 1, 2021 | 46,938,056 | 10,294,876 | 450,000 | 39 | 29,520 | 2,621,825 | (10,737,087) | 2,209,173 |
| Share-based compensation | - | - | - | - | - | 1,380,797 | - | 1,380,797 |
| Exercise of warrants | 1,588,277 | 1,024,745 | - | - | - | (10,004) | - | 1,014,741 |
| Net loss and comprehensive loss for the period | - | - | - | - | 855 | - | (4,731,707) | (4,730,852) |
| Balance, September 30, 2021 | 48,526,333 | 11,319,621 | 450,000 | 39 | 30,375 | 3,992,618 | (15,468,794) | (126,141) |
| Balance, January 1, 2022 | 69,040,956 | 13,341,316 | 450,000 | 39 | 33,171 | 5,702,819 | (17,467,950) | 1,608,286 |
| Issuance of shares for non-brokered private placement | 5,307,894 | 538,321 | - | - | - | - | - | 538,321 |
| Issuance of finder shares (private placement) | 70,000 | 16,443 | - | - | - | - | - | 16,443 |
| Share issuance cost | - | (68,367) | - | - | - | 24,646 | - | (43,721) |
| Exercise of RSUs | 225,000 | 131,072 | - | - | - | (131,072) | - | - |
| Share-based compensation | 54,000 | - | - | - | - | 703,090 | - | 703,090 |
| Exercise of warrants (note 11) | - | - | - | - | - | - | - | - |
| Net loss and comprehensive loss for the period | - | - | - | - | (3,651) | - | (2,414,658) | (2,418,309) |
| Balance, September 30, 2022 | 74,697,850 | 13,958,785 | 450,000 | 39 | 29,520 | 6,299,483 | (19,882,608) | 1,168,094 |

Hapbee Technologies, Inc.
Condensed Consolidated Interim Statements of Changes in Cash Flows
For the nine months ended September 30, 2022 and 2021

Expressed in U.S. dollars

| | Three months ended September 30, 2022 | Three months ended June 30, 2022 |
|--|--|---|
| | (Unaudited) | (Unaudited) |
| | \$ | \$ |
| Operating activities | | |
| Net loss for the year | (995,961) | (1,422,348) |
| Item not involving cash: | | |
| Amortization of Intangible Assets | 52,999 | 106,249 |
| Share-based compensation | 231,975 | 471,115 |
| Change in FV of warrant liability | - | (3,471,305) |
| Changes in non-cash working capital balances: | | |
| Decrease / (Increase) in receivable | 55,398 | 70,856 |
| Decrease / (Increase) in inventory | (40,349) | (89,389) |
| Decrease / (Increase) in prepaid expenses | (40,245) | (48,155) |
| Warranty Liability | 4,981 | 4,981 |
| Decrease in accounts payable and accrued liabilities | 613,670 | 215,286 |
| Decrease in unearned revenue | (141,129) | (94,479) |
| Net cash used in operating activities | (258,661) | (4,257,190) |
| Investing activities | | |
| License fees | - | - |
| Development costs incurred | - | - |
| Net cash used in investing activities | - | - |
| Financing activities | | |
| Proceeds from subordinated voting shares issuances (private placement) | - | 1,273,253 |
| Share issuance cost | (26,348) | (26,348) |
| Exercise of RSUs | - | - |
| Net cash provided by financing activities | (26,348) | 1,246,905 |
| Effect of foreign exchange | (39,203) | (17,254) |
| Increase (decrease) in cash during the period | (323,212) | (3,027,539) |
| Cash, beginning of the period | 602,580 | 3,630,119 |
| Cash, end of the period | 279,368 | 602,580 |

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

1. NATURE OF OPERATIONS AND GOING CONCERN

Hapbee Technologies, Inc. (formerly known as Elevation Technologies, Inc.) (the “Company”) is a company incorporated on January 3, 2019 under the Business Corporations Act (British Columbia). Its registered and record office and corporate office is located at 700 West Georgia Street, Suite 2500, Vancouver, BC V7Y 1B3. The Company’s principal business activity is to commercialize consumer digital products that will deliver one or more ultra-low radio frequency energy signals to produce mood-altering effects. On June 15, 2021, the Company completed a forward stock split of its common shares on a 1 for 4.5 basis. The Company had 13,455,000 common shares issued and outstanding and the resulting post stock split common shares outstanding are 60,547,500. The numbers of common shares issuable pursuant to all share capital have been retrospectively adjusted in accordance with the stock split ratio. On the same day, the Company amended its articles in order to change its authorized capital from an unlimited number of common shares, without par value, to an unlimited number of Subordinated Voting Shares, and created a new class of unlimited number of Multiple Voting Shares, all without par value. On June 16, 2021, the Company completed an amalgamation with Zander Capital Ltd. (“Zander”), refer to Note 6 for details. During the year ended December 31, 2021 60,547,500 common shares previously issued were cancelled and replaced by 60,547,500 Subordinated Voting Shares. During the year ended December 31, 2021, 45,000,000 Subordinated Voting Shares owned by EMulate Therapeutics Inc. and Scott Donnell were exchanged for 450,000 Multiple Voting Shares.

The Company’s operations have been financed through the sale of Subordinated Voting Shares, Multiple Voting Shares and issuance of debt. The Company has incurred a significant operating loss since inception and has an accumulated deficit of \$15,468,794 as at September 30, 2022.

These condensed consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the nine months period ended September 30, 2022, the Company incurred a net loss of \$4,731,707.

The outbreak and spread of a novel coronavirus (COVID-19), declared a pandemic by the World Health Organization, has already had significant human, political, and economic consequences around the world. The coronavirus is still evolving, and its full impact remains to be determined. However, its wide-ranging effects include financial market volatility, interest rate cuts, disrupted movement of people and goods, and diminished consumer confidence. The effects of the coronavirus may be difficult to assess or predict with meaningful precision both generally and as an industry-or issuer-specific basis. This is an uncertain issue where actual effects will depend on many factors beyond the control and knowledge of the Company.

The Company’s ability to continue as a going concern is dependent upon its ability to fund its working capital and operating requirements and eventually to generate positive cash flows from operations. These condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and statement of financial position classifications that would be necessary were the going concern assumption determined to be inappropriate and these adjustments could be material.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

2. BASIS OF PRESENTATION

a) Statement of Compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. These condensed consolidated interim financial statements should be read in conjunction with the Company’s financial statements for the year ended December 31, 2021.

These unaudited condensed consolidated interim financial statements are expressed in US dollars and have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting on a going concern basis. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements as if the policies have always been in effect.

b) Basis of Preparation

These financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information. The financial statements, unless otherwise specified, are presented in US dollars, which is the functional currency of the Company.

c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in US dollars, unless otherwise noted, which is the functional currency of the parent and its wholly owned subsidiaries, 1253596 B.C. Ltd., which was incorporated in British Columbia, Canada and Hapbee Technologies USA, Inc. which was incorporated in the State of Washington, USA.

d) Basis of consolidation

These condensed consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed consolidated financial statements.

e) Approval of the Financial Statements

The condensed consolidated financial statements of the Company for the period ended September 30, 2022 were approved and authorized for issue by the Board of Directors on November 29, 2022.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated financial statements.

a) Critical accounting judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical accounting judgments and estimates in applying accounting policies that have the most significant impact on the amounts recognized in the consolidated financial statements are outlined below.

Share-based payments and warrant liability

The Company makes certain estimates and assumptions when calculating the estimated fair values of stock options granted and warrants issued. The significant assumptions used include estimates of expected volatility, expected life, expected dividend rate and expected risk-free rate of return. Changes in these assumptions may result in a material change to the expense recorded for grants of stock options and the issuance of warrants. Certain warrants issued during the year ended December 31, 2021 are accounted for as derivative liabilities (see note 13).

Deferred income taxes

The Company is periodically required to estimate the tax base of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the consolidated financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of changes.

Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, the market price for commodities, production costs, quantities of proven and probable reserves, interest rates, and foreign currency exchange rates.

Going concern

The determination of the Company's ability to continue as a going concern requires the Company to make certain judgements about whether the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Management is required to use judgement in determining the economic useful lives of identifiable intangible assets and the capitalization of costs for internally generated intangible assets is subject to judgment including the technical feasibility, timeframe to commercialization, assessment of availability of resources to complete the project, and if economic benefits will be generated from its use. Management is required to use judgement in determining the economic useful lives of identifiable intangible assets. Judgement is also required in identifying indicators of impairment of the Company's intangible assets.

At each financial position reporting date, the carrying amounts of the Company's intangible assets, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. This requires management to make certain estimates and judgements which could be materiality different than actual results.

Revenue recognition

The Company's revenue is comprised of sales of its products which consists of its wearable device and annual/monthly subscription. As a result, the Company is required to allocate the transaction prices amongst the multiple elements of its packaged products. This requires that management make judgements and estimates related to the allocation which are subjective and could result in material differences if changed.

b) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. Financial assets are classified into one of the following specified categories: amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as FVTPL) are added to, or deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the statement of loss and comprehensive loss.

The Company's financial instruments are classified as follows:

| Financial instrument | Measurement |
|-----------------------------|--------------------|
| Cash | FVTPL |
| Receivables | Amortized cost |
| Accounts payable | Amortized cost |
| Unearned revenue | Amortized cost |

Financial Assets

Subsequent to initial recognition, financial assets classified and measured at amortized cost using the effective interest method.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Assets (continued)

Financial assets classified as FVTPL are recognized initially at fair values less transaction costs and are subsequently carried at fair value, with changes in the fair value recorded in comprehensive income. The fair value measurements are based on level 1 inputs, being quoted prices in active markets for identical instruments.

c) Impairment of financial assets at amortized cost

The Company recognizes an allowance using the expected credit losses (“ECL”) model on financial assets classified as amortized cost. The Company has elected to use the simplified approach for measuring ECL by using a lifetime expected loss allowance for all accounts receivable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the statement of loss and comprehensive loss.

Financial Liabilities

Financial liabilities are classified as and are measured at amortized cost subsequent to initial measurement at fair value.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

d) Cash

Cash is comprised of cash held in current operating bank accounts.

e) Inventory

Inventory includes products held for resale in the ordinary course of business (finished goods) and is measured at the lower of cost and net realizable value. The cost of inventory is determined generally on a first-in and first-out basis.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Revenue recognition

The Company's revenues are derived from both the sale of hardware as well as subscriptions fees related to the use of its products.

Sales of hardware is recognized upon the transfer of control of the promised product to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products.

Subscription fees are comprised of fees that provide customers with access to its software and application over the contract term without taking possession of the software. Revenue from subscription fees are recognized over the term of the contract.

The Company also collects advance payments from its customers which are recorded as unearned revenue. Recognition of the unearned revenue for subscription fees is over the term of the contract. For sale of hardware, recognition of unearned revenue is based on control of products transferring to customers.

g) Research and development expenditures

Research expenditures are recorded in the period incurred. Product development expenditures are expensed in the period incurred unless the product candidate meets specific criteria related to technical, market and financial feasibility for deferral and amortization. The Company's policy is to amortize deferred product development expenditures over the expected future life of the product once product revenues are recorded. The future life of the product is estimated to be 8 years.

h) Share-based payments

The Company has a share-based compensation plan. Awards of options under this plan are expensed or recorded as additions to resource properties based on the estimated fair value of the options at the grant date, with a corresponding credit to contributed surplus in shareholders' equity. Fair value is estimated using the Black-Scholes pricing model. If the options are subject to a vesting period, the estimated fair value is recognized over this period on a graded vesting basis, based on the Company's estimate of the shares that will eventually vest.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the estimated fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Cash consideration received on exercise of options is credited to share capital together with the amounts originally recorded as share-based compensation related to the exercised options.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Income taxes

Current income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on taxable income for the year. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Income tax is recognized in the statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity. Current income tax relating to items recognized directly in equity is recognized in the statements of changes in equity and not in the statements of loss and comprehensive loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expense.

Deferred income taxes

Deferred income taxes are calculated using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, can be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Income taxes (continued)

Deferred tax relating to items recognized outside of profit or loss is recognized outside of profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive loss or directly in equity.

j) Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the year. The Company follows the treasury method of calculating diluted earnings per share. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the year. Diluted loss per share is equal to loss per share since the exercise of all options and warrants is anti-dilutive.

k) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. There were no material provisions recorded within the condensed consolidated interim financial statements as at September 30, 2022.

l) Foreign currency translation

Foreign currency transactions are translated as follows:

- (i)* monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at the statement of financial position date; and
- (ii)* non-monetary assets and liabilities denominated in foreign currencies and measured in terms of historic costs are translated using exchange rates at the transaction dates.

m) Related party transactions

Unless otherwise disclosed herein, all transactions with related parties are in the normal course of business and are measured at the exchange amount (note 14).

n) Intangible assets - Licenses

Upon acquisition, intangible assets with finite useful lives are recorded at fair value and are carried at cost less accumulated amortization and impairment losses. Amortization is calculated over the cost of the asset, or revalued amount, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives of the Company's licenses is 20 years.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Intangible assets – Development costs

Development expenditures can be capitalized only where a development project meets certain conditions, including technical feasibility of the intangible asset, intention to complete the project, ability to sell the intangible asset, probability that the intangible asset can produce future economic benefits, availability of resources to complete the project, and ability to reliably measure the expenditure attributable to the intangible asset. Development projects are reviewed as they arise and on an on-going basis to assess whether all conditions have been met. Amortization is calculated over the cost of the asset, or revalued amount, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

p) Adoption of new pronouncements

A number of amendments to standards and interpretations applicable to the Company are not yet effective for the year ended December 31, 2021 and have not been applied in preparing these consolidated financial statements nor does the Company expect these amendments to have a significant effect on its consolidated financial statements.

4. INVENTORY

| | September 30, 2022 | December 31, 2021 |
|----------------|-------------------------------|------------------------------|
| | \$ | \$ |
| Finished goods | 323,945 | 283,596 |

5. INTANGIBLE ASSETS

The Company capitalized the acquisition costs of licenses and development costs related to the design and development of the device prototype.

a) Licenses

License Agreement for certain sensory technologies

On March 29, 2019, the Company acquired a license from EMulate Therapeutics Inc. (“EMulate”). The Company paid an up-front fee of USD \$1,500,000 for this license. The Company will pay EMulate, on a quarterly basis, 20% royalties on the net income from sales, lease or rental of the authorized product containing cognate signals. The royalty rate on the first USD \$10,000,000 will be 25%. In exchange, the Company will obtain from EMulate certain exclusive rights and licenses to develop, use, import, and commercialize a consumer digital products using EMulate’s technology. The license has a term of 20 years from the effective date.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

5. INTANGIBLE ASSETS (CONTINUED)

a) Licenses (continued)

On October 30, 2019, an amended and restated exclusive license agreement with EMulate was signed by the Company. The effective date of the original licensing agreement was changed to October 30, 2019. All other terms remained the same. On January 24, 2021, another amended and restated exclusive license agreement with EMulate was signed by the Company. As per the amended and restated exclusive license agreement, the effective date of the original licensing agreement was changed to January 24, 2021, all other terms remained the same. On June 1, 2021, another amended and restated exclusive license agreement with EMulate was signed by the Company. As per the amended and restated exclusive license agreement, the effective date of the original licensing agreement was changed to June 1, 2021. All other terms remained the same. On October 26, 2021, another amended and restated exclusive license agreement with EMulate was signed by the Company. As per the amended and restated exclusive license agreement, the effective date of the original licensing agreement was changed to October 26, 2021. All other terms remained the same.

License Agreement for certain sensory technologies

On October 30, 2019, the Company acquired another license from EMulate. The Company paid an up-front fee of USD \$30,000 for this license. The Company will pay EMulate, on a quarterly basis, 20% royalties on the net income from sales, lease or rental of the authorized product containing cognate signals. The royalty rate on the first USD \$10,000,000 will be 25%. In exchange, the Company will obtain from EMulate certain exclusive rights and licenses to develop, use, import, and commercialize a consumer digital products using EMulate's technology. The license has a term of 20 years from the effective date.

On October 31, 2019, an amended and restated exclusive license agreement with EMulate was signed by the Company. The effective date of the original licensing agreement was amended to October 31, 2019. All other terms remained the same. On January 24, 2021, another amended and restated exclusive license agreement with EMulate was signed by the Company. As per the amended and restated exclusive license agreement, the effective date of the original licensing agreement was amended to January 24, 2021. All other terms remained the same. On June 1, 2021, another amended and restated exclusive license agreement with EMulate was signed by the Company. As per the amended and restated exclusive license agreement, the effective date of the original licensing agreement was amended to June 1, 2021. All other terms remained the same. On October 26, 2021, another amended and restated exclusive license agreement with EMulate was signed by the Company. As per the amended and restated exclusive license agreement, the effective date of the original licensing agreement was amended to October 26, 2021. All other terms remained the same.

On April 21, 2021, the Company acquired another license from EMulate. The Company paid an up-front fee of USD \$10,000 for this license. The Company will pay EMulate, on a quarterly basis, 20% royalties on the net income from sales, lease or rental of the authorized product containing cognate bedtime signals. The royalty rate on the first USD \$10,000,000 will be 25%. In exchange, the Company will obtain from EMulate certain exclusive rights and licenses to develop, use, import, and commercialize a consumer digital products using EMulate's technology. The license has a term of 20 years from the effective date.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

5. INTANGIBLE ASSETS (CONTINUED)

b) Licenses (continued)

On July 29, 2021, the Company acquired another license from EMulate. The Company paid an up-front fee of USD \$10,000 for this license. The Company will pay EMulate, on a quarterly basis, 20% royalties on the net income from sales, lease or rental of the authorized product containing cognate bedtime signals. The royalty rate on the first USD \$10,000,000 will be 25%. In exchange, the Company will obtain from EMulate certain exclusive rights and licenses to develop, use, import, and commercialize a consumer digital products using EMulate’s technology. The license has a term of 20 years from the effective date.

Sensory technologies include the human senses of happiness, sleepiness, focus, alertness, calmness and relaxation.

a) Development Costs

During the nine months ended September 30, 2022, the Company incurred development costs of \$729,508 (year ended December 31, 2021: \$266,698) related to the developing an augmentative wearable product that emulates normal molecular interactions in the body through small, specific magnetic fields. These costs have met the criteria for capitalization under IAS 38.

The following table outlines the Company’s intangible assets as at September 30, 2022:

| | September 30, 2022 | December 31, 2021 |
|---|-------------------------------|------------------------------|
| | \$ | \$ |
| License Agreement for certain sensory technologies | 1,500,000 | 1,500,000 |
| License Agreement for certain sensory technologies | 30,000 | 30,000 |
| License Agreement for certain sensory technologies | 20,000 | 20,000 |
| Development costs capitalized | 1,079,980 | 1,079,980 |
| | <hr/> | <hr/> |
| Amortization of intangible assets - license fees | (179,500) | (121,750) |
| Amortization of intangible assets - development costs | (326,243) | (224,995) |
| | <hr/> | <hr/> |
| | 2,124,237 | 2,283,235 |

6. ACQUISITION TRANSACTION

During May 2020, the Company entered into a definitive agreement with Zander to complete a transaction structured as a three-cornered amalgamation (“Amalgamation” or “Transaction”) with Zander and the Company’s wholly-owned subsidiary, 1245802 B.C. Ltd (“802”). As consideration for the Amalgamation, each outstanding common share of the Zander was exchanged for one Subordinated Voting Share of the Company. Pursuant to the amalgamation agreement, an aggregate of 8,724,401 of the Company’s Subordinated Voting Shares have been issued to the shareholders of Zander. The transaction resulted in Zander becoming a wholly-owned subsidiary of the Company on June 16, 2020. The entity after the amalgamation of 802 and Zander was named 1253596 B.C. Ltd.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and liabilities assumed were recorded at their estimated fair value at the acquisition date. The acquisition was not assessed to be a business combination and is therefore treated as an asset acquisition under the scope of IFRS 2 – Share Based Payments. The Company valued the subordinated voting shares using share prices used in recent equity and debt financings which were considered to be the fair value of the shares issued. The allocation of the purchase price is as follows:

| | |
|--|-------------|
| Subordinated Voting shares of the Company issued | 8,724,401 |
| Fair value of consideration received (\$0.22 per share) | \$1,938,755 |
| <hr/> | |
| Identifiable assets acquired | \$474,273 |
| Identifiable liabilities assumed | (1,952) |
| Net | 472,321 |
| Share-based compensation related to services, knowledge and expertise of the Zander team | 1,466,434 |
| Total purchase price | \$1,938,755 |

In exchange for 8,724,401 Subordinated Voting Shares of the Company, the Company received \$472,321 in net assets and the remaining consideration was allocated to share-based payments. The share-based payments represent the services and knowledge related to the expertise that the Zander team brought to the Company. The Zander team is able to assist the Company in understanding the Canadian marketplace and introduce strategic partners to assist with future financings and business negotiations. The Company recorded the shared based-compensation in the year on the consolidated statement of loss and comprehensive loss.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | <u>September 30, 2022</u> | <u>December 31, 2021</u> |
|--|---------------------------|--------------------------|
| | \$ | \$ |
| Trade accounts payable and accrued liabilities | 1,272,376 | 666,103 |
| Amounts payable to related parties (note 14) | 287,161 | 279,764 |
| | <hr/> | <hr/> |
| | 1,559,537 | 945,867 |

8. CONVERTIBLE DEBENTURES

On June 25, 2020, the Company closed a non-brokered private placement of secured convertible debentures (“Convertible Debentures”), in the principal amount of \$4,483,594 (C\$6,116,773). The Convertible Debentures will mature on June 25, 2022. The Company filed a listing application for its Subordinated Voting Shares to be listed on TSX Venture Exchange (the “Listing”). If the Listing was completed on or before October 30, 2020, there would not be any interest to be paid or accrued on the Convertible Debenture. If the Listing was completed after October 30, 2020, there would be eight percent (8%) coupon interest rate to be paid and accrued retroactively from the day of issuance of the Convertible Debentures. The total amount of the principal and the total amount of accrued and unpaid interest, if any, would be automatically converted into units (the “Convertible Debenture Units”) of the Company prior to or concurrent to the receipt of the final receipt of the Final Prospectus, at a conversion price of \$0.22 (C\$0.30) per Unit (the “Conversion Price”). Each Convertible Debenture Unit consists one (1) Subordinated Voting Shares (the “Convertible Debenture Share”) and one half of one (1/2) Subordinated Voting Share purchase

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

warrant (each a “Convertible Debenture Warrant”). Each whole Convertible Debenture Warrant entitles the holder to purchase one (1) additional Subordinated Voting Share from the Company at an exercise price of \$0.37 (C\$0.50) per share for a period of two (2) years from the issuance date of the Convertible Debenture Warrant.

For accounting purposes, the Convertible Debentures are separated into their components using the residual method. The fair value of the liability component at the time of issue was determined to be \$3,331,378. This is based on an estimated market interest rate of 20% for Convertible Debentures without the conversion feature. After initial recognition the liability component is carried on an amortized cost basis and will be accreted to its face value over the term to maturity of the Convertible Debenture at an effective interest rate of approximately 25.1%.

On October 27, 2020, the principal amount of Convertible Debentures was automatically converted into 20,389,216 units (the “Convertible Debenture Units”) of the Company, at a conversion price of \$0.22 (C\$0.30) per Unit (the “Conversion Price”) with the warrant rights mentioned above. The balance of the Convertible Debentures as at October 26, 2020 was converted into Share Capital and the interest accrued up to October 26, 2020 was forfeited accordingly.

On July 13, 2020, the Company closed a non-brokered private placement of secured convertible debentures (“Convertible Debentures”), in the principal amount of \$280,098 (C\$380,000). The Convertible Debentures will mature on July 13, 2022. The Company filed a listing application for its Subordinated Voting Shares to be listed on TSX Venture Exchange (the “Listing”). If the Listing was completed on or before October 30, 2020, there would not be any interest to be paid or accrued on the Convertible Debenture. If the Listing was completed after October 30, 2020, there would be eight percent (8%) coupon interest rate to be paid and accrued retroactively from the day of issuance of the Convertible Debentures. The total amount of the principal and the total amount of accrued and unpaid interest, if any, would be automatically converted into units (the “Convertible Debenture Units”) of the Company prior to or concurrent to the receipt of the final receipt of the Final Prospectus, at a conversion price of \$0.22 (C\$0.30) per Unit (the “Conversion Price”). Each Convertible Debenture Unit consists one (1) Subordinated Voting Shares (the “Convertible Debenture Share”) and one half of one (1/2) Subordinated Voting Share purchase warrant (each a “Convertible Debenture Warrant”). Each whole Convertible Debenture Warrant entitles the holder to purchase one (1) additional Subordinated Voting Share from the Company at an exercise price of \$0.37 (C\$0.50) per share for a period of two (2) years from the issuance date of the Convertible Debenture Warrant.

For accounting purposes, the Convertible Debentures are separated into their liability components using the residual method. The fair value of the liability component at the time of issue was determined to be \$225,635. This is based on an estimated market interest rate of 20% for Convertible Debentures without the conversion feature. After initial recognition the liability component is carried on an amortized cost basis and will be accreted to its face value over the term to maturity of the Convertible Debenture at an effective interest rate of approximately 20.17%.

On October 27, 2020, the principal amount of Convertible Debentures was automatically converted into 1,266,666 units (the “Convertible Debenture Units”) of the Company, at a conversion price of \$0.22 (C\$0.30) per Unit (the “Conversion Price”) with the warrant rights mentioned above. The balance of the Convertible Debentures as at October 26, 2020 was converted into Share Capital and the interest accrued up to October 26, 2020 was forfeited accordingly.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

9. SHARE CAPITAL

On June 15, 2020, the Company amended its articles in order to change its authorized capital from an unlimited number of common shares, without par value, to an unlimited number of Subordinated Voting Shares, and created a new class of unlimited number of Multiple Voting Shares, all without par value.

Authorized

The Company's authorized capital consists of (i) an unlimited number of Subordinated Voting Shares, and (ii) an unlimited number of Multiple Voting Shares. The holders of Subordinated Voting Shares are entitled to one vote for each Subordinated Voting share held. The holders of Multiple Voting Shares are entitled to 100 votes for each Multiple Voting Share held.

Voting Rights

All holders of Subordinated Voting Shares and Multiple Voting Shares are entitled to receive notice of any meeting of shareholders of the Company, and to attend, vote and speak at such meetings, except those meetings at which only holders of a specific class of shares are entitled to vote separately as a class under the Business Corporations Act (*British Columbia*). A quorum for the transaction of business at any meeting of shareholders is two persons present at the meeting, each of whom is entitled to vote at the meeting, and who hold or represent by proxy in the aggregate not less than 5% of the outstanding shares of the Company entitled to vote at the meeting.

On all matters upon which shareholders the Company are entitled to vote:

- each Subordinated Voting Share is entitled to one vote per Subordinated Voting Share; and
- each Multiple Voting Share is entitled to 100 votes per Multiple Voting Share.

Unless a different majority is required by law or the articles of the Company, resolutions to be approved by shareholders require approval by a simple majority of shareholders.

Conversion Rights and Conditions

The issued and outstanding Multiple Voting Shares, including fractions thereof, may at any time, subject to the FPI Condition (as defined below), at the option of the holder, be converted into Subordinated Voting Shares at a ratio of 100 Subordinated Voting Shares per Multiple Voting Share. Further, the board of directors of the Company may determine in the future that it is no longer advisable to maintain the Multiple Voting Shares as a separate class of shares and may cause all of the issued and outstanding Multiple Voting Shares to be converted into Subordinated Voting Shares at a ratio of 100 Subordinated Voting Shares per Multiple Voting Share. The right of the Multiple Voting Shares to convert into Subordinated Voting Shares is subject to certain conditions in order to maintain the status of the Company as a "foreign private issuer" under United States securities laws (the "FPI Condition").

At September 30, 2022, the Company has 74,697,850 Subordinated Voting Shares issued and outstanding and 450,000 Multiple Voting Shares issued and outstanding.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

Share issuance:

FISCAL YEAR 2021

- During the year ended December 31, 2021, the Company issued total 1,588,277 Subordinated Voting Shares of the Company for the exercise of warrants.
- On November 24, 2021, the Company closed a non-brokered private placement of 20,308,963 units at \$C0.30 per unit for total proceeds of \$4,805,913 (\$C6,092,689). Each unit consisted of one subordinate voting share and one subordinate voting share purchase warrant, and each warrant entitles the holder thereof to purchase one additional subordinate voting share of the Company at a price of \$C0.50 per share for a period of 36 months from the closing date. The Company may, in its sole discretion, provide notice to warrant holders to shorten the warrant expiry date to 60 days from the notice date if the daily volume weighted average closing price of the Company's subordinate voting share is greater than \$C1.00 for the 10 consecutive trading days preceding the notice date. In connection with the private placement, the Company paid finders' fees of \$89,816 (\$C115,052) in cash, and issued 205,660 finder's shares and 589,166 non transferrable warrants. Each finder's warrant entitles the holder thereof to purchase one additional subordinate voting share of the Company at a price of \$C0.50 per share for a period of 12 months from the closing date. The fair value of finder's warrants \$41,049 was estimated on the dates of award using the Black-Scholes Option Pricing Model.
- As the warrants are exercisable in a currency different than the Company's functional currency, a resulting derivative exists, and the Company allocated the fair value of the warrants of \$2,883,137 on the date of issuance as a warrant liability and the residual of \$1,922,776 was allocated to the share capital.

Fiscal Year 2022

- On January 28, 2022, the Company closed a non-brokered private placement of 5,307,894 units at \$C0.30 per unit for total proceeds of \$1,246,824 (\$C1,592,368). Each unit consisted of one subordinate voting share and one subordinate voting share purchase warrant, and each warrant entitles the holder thereof to purchase one additional subordinate voting share of the Company at a price of \$C0.50 per share for a period of 36 months from the closing date. The Company may, in its sole discretion, provide notice to warrant holders to shorten the warrant expiry date to 60 days from the notice date if the daily volume weighted average closing price of the Company's subordinate voting share is greater than \$C1.00 for the 10 consecutive trading days preceding the notice date. In connection with the private placement, the Company paid finders' fees of \$26,309 (\$C33,600) in cash, and issued 70,000 finder's shares and 182,000 non-transferrable warrants. Each finder's warrant entitles the holder thereof to purchase one additional subordinate voting share of the Company at a price of \$C0.50 per share for a period of 12 months from the closing date. The fair value of finder's warrants \$24,646 was estimated on the dates of award using the Black-Scholes Option Pricing Model.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

10. STOCK OPTIONS AND RESTRICTED SHARE UNITS

The Company has adopted a stock option plan on November 6, 2019, providing the Board of Directors with the discretion to issue an equivalent number of options of up to 7,515,000 Subordinated Voting Shares of the Company. Stock options are granted with an exercise price of not less than the closing share price the date preceding the date of grant.

During the year ended December 31, 2021, Company granted 970,000 (2020: 7,866,875) stock options to its directors, officers and consultants with a value of \$264,879 (2020: \$2,332,752) or \$0.27 (2020: \$0.33) per option. The details are as follows:

On January 20, 2020, the Company granted 3,600,000 incentive stock options to officers, directors and consultants of the Company. The options are exercisable at the price of \$0.22 per share until January 20, 2028.

On August 12, 2020, the Company replace its Old Plan with a new 10% rolling stock option plan (the “New Plan”) and adopted a 10% fixed restricted share unit plan (the "RSU Plan"), which were subsequently approved by the TSX Venture Exchange upon the Listing.

On November 12, 2020, the Company granted 4,266,875 incentive stock options to officers, directors and consultants of the Company pursuant to the Company's New Plan. The options are all exercisable at the price of \$0.56 (C\$0.73) per share until November 12, 2028, subject to earlier termination in accordance with the New Plan.

The fair value of share options awarded to officers, directors and consultants was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

| | Options granted on November 12, 2020 | Options granted on January 20, 2020 |
|--------------------------|---|--|
| Dividend yield | 0% | 0% |
| Risk-free interest rate | 0.63% | 1.57% |
| Estimated volatility | 100% | 100% |
| Expected life in years | 8 | 8 |
| Fair value at grant date | \$0.61 | \$0.19 |

On February 17, 2021, the Company signed an agreement with Octagon Media Corp. (“Octagon”) where Octagon is engaged to provide marketing services to the Company for a period of 6 months ending August 16, 2021. The Company agreed to pay \$125,000 upfront and granted 600,000 options at an exercise price of \$0.63 (C\$0.80) to Octagon in return for marketing services.

On March 5, 2021, the Company granted 40,000 stock options exercisable to purchase up to an aggregate of 40,000 shares to a consultant. The options are exercisable at the price of \$0.53 (C\$0.67) per share until March 5, 2029.

On June 1, 2021, the Company granted 330,000 stock options exercisable to purchase up to an aggregate of 330,000 shares to an entity owned by the new CEO of the Company. The options are exercisable at the price of \$0.40 (C\$0.48) per share until June 1, 2029.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

The fair value of share options awarded to officers, directors and consultants was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

| | Options granted on June 1, 2021 | Options granted on March 5, 2021 | Options granted on February 17, 2021 |
|--------------------------|------------------------------------|-------------------------------------|---|
| Dividend yield | 0% | 0% | 0% |
| Risk-free interest rate | 1.23% | 1.37% | 0.15% |
| Estimated volatility | 110% | 110% | 94% |
| Expected life in years | 7 | 8 | 1 |
| Fair value at grant date | \$0.37 | \$0.52 | \$0.29 |

The stock options outstanding and exercisable as at September 30, 2022 is as follows:

| | Expiry date | Number of options | Exercise price (\$) |
|--|-------------------|----------------------|---------------------|
| Outstanding at December 31, 2020 | | 7,866,875 | 0.40 |
| Exercisable at December 31, 2020 | | 7,030,625 | 0.39 |
| Granted | February 17, 2022 | 600,000 | 0.63 |
| Granted | March 5, 2029 | 40,000 | 0.53 |
| Granted | June 1, 2029 | 330,000 | 0.40 |
| Outstanding at December 31, 2021 | | 8,836,875 | 0.44 |
| Exercisable at December 31, 2021 | | 8,041,250 | 0.43 |
| Expired | | (600,000) | 0.63 |
| Outstanding at September 30, 2022 | | 8,236,875 | 0.40 |
| Exercisable at September 30, 2022 | | 7,551,250 | 0.40 |

The number of options exercisable as at September 30, 2022 was 7,551,250 (2021 – 8,041,250). The weighted average life remaining for these options were 6.0 years and weighted average exercise price was \$0.40 per option.

Restricted Stock Units

During the year ended December 31, 2021, the Company granted an aggregate of 6,817,875 restricted stock units (the “RSU”) to officers, directors, key employees and consultants pursuant to the Company's RSU Plan with a value of \$248,400 or \$0.45 per option. The RSUs will be subject to vesting provisions. Each vested RSU entitles the holder to receive one Subordinated Voting Share in the capital of the Company. The grant of RSUs is subject to regulatory approval.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

On March 5, 2021, the Company granted 100,000 RSU to a consultant with a fair value of \$0.53 per RSU. The RSU will be vested 1/2 on the 12- and 24-months' anniversary. These units are exercisable until March 5, 2024.

On June 1, 2021, the Company granted 1,072,000 RSU to an entity owned by the new CEO of the Company, with a fair value of \$0.38 per RSU. The RSU will be vested 1/2 on the 12- and 24-months' anniversary. These units are exercisable until June 1, 2024.

On September 29, 2021, the Company granted total 179,000 RSU to two consultants with a fair value of \$0.26 per RSU. Out of these units, 62,333 RSU are vested on the grant date; 58,333 RSU on December 31, 2021 and 58,334 RSU on March 9, 2022. These units are exercisable until September 30, 2022, December 31, 2022 and March 9, 2023 respectively.

The fair value of RSUs awarded to officers, directors, key employees and consultants was estimated on the dates of award using the fair market value of the Company share price.

As at September 30, 2022 the Company has 6,592,875 RSUs issued and outstanding and 3,106,711 RSUs exercisable.

11. WARRANTS

On June 25, 2020, the Company issued 976,543 non-transferrable finder's warrants. Each finder's warrant entitles the holder to purchase one (1) additional Subordinated Voting Share from the Company at an exercise price of \$0.22 (C\$0.30) per share for a period of two (2) years from the issuance date. The broker's warrants were valued at \$152,876 using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 0.30%; dividend yield of 0%; expected volatility of 100% and expected life of 2 years.

On July 31, 2020, the Company issued 223,073 warrants to a consultant (the "Consultant") pursuant to the consulting agreement with the Consultant. Each Consultant's warrant entitles the holder to purchase one (1) additional Subordinated Voting Share from the Company at an exercise price of \$0.22 (C\$0.30) per share for a period of two (2) years from the issuance date. The Consultant's warrants were valued at \$35,541 using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 0.23%; dividend yield of 0%; expected volatility of 100% and expected life of 2 years.

On October 27, 2020, the Company issued 10,827,941 Convertible Debenture Warrants upon conversion of the Convertible Debentures. Out of these issued Convertible Debenture Warrants, a total of 93,916 warrants were exercised during the fiscal year.

In connection with the private placement closed during 2021, the Company issued 589,166 non-transferrable warrants. Each finder's warrant entitles the holder thereof to purchase one additional subordinate voting share of the Company at a price of \$0.50 per share for a period of 12 months from the closing date. The fair value of finder's warrants was valued at \$41,049 using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 0.81%; dividend yield of 0%; expected volatility of 110% and expected life of 1 year.

During the year ended December 31, 2021, a total of 1,588,277 warrants were exercised and converted into Subordinated Voting Shares.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

During the six months ended June 30, 2022, no warrants were exercised and converted into Subordinated Voting Shares.

The warrants outstanding and exercisable as at September 30, 2022 are as follows:

| | Expiry date | Number of warrants outstanding | Number of warrants exercisable | Exercise Price (\$) |
|-----------------------------------|-------------------|--------------------------------|--------------------------------|---------------------|
| Balance December 31, 2020 | | 11,933,618 | 11,933,618 | 0.36 |
| Exercised | June 25, 2022 | (259,112) | (259,112) | 0.22 |
| Exercised | October 27, 2022 | (1,329,165) | (1,329,165) | 0.37 |
| Granted | November 24, 2022 | 589,166 | 589,166 | 0.39 |
| Granted | November 24, 2024 | 20,308,963 | 20,308,963 | 0.39 |
| Balance December 31, 2021 | | 31,243,470 | 31,243,470 | 0.38 |
| Granted | January 28, 2023 | 182,000 | 182,000 | 0.50 |
| Granted | January 25, 2028 | 5,307,894 | 5,307,894 | 0.50 |
| Expired | | (1,462,101) | (1,462,101) | 0.30 |
| Balance September 30, 2022 | | 35,271,263 | 35,271,263 | 0.50 |

As at September 30, 2022, the weighted average remaining contractual life of warrants outstanding was 2.97 years.

12. INCOME (LOSS) PER SHARE

The weighted average number of shares outstanding as at September 30, 2022 was 74,697,850. The Company included both weighted average subordinated voting shares outstanding and weighted average multiple voting shares outstanding to the loss per share calculation.

13. WARRANT LIABILITY

The Company's warrant liability arises as a result of the issuance of warrants exercisable in Canadian dollars ("CAD"). As the denomination currency is different from the US dollar functional currency of the entity issuing the underlying warrants, the Company recognizes a derivative liability for these warrants and re-measures the liability at the end of each reporting period using the Black-Scholes model. Changes in respect of the Company's warrant liability are as follows:

| | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| | \$ | \$ |
| Balance at beginning of the period / year | 3,102,566 | 3,235,642 |
| Additions | 718,768 | 2,883,137 |
| Fair value adjustment | (3,471,305) | (2,391,914) |
| Exercise of warrants | - | (624,299) |
| Other | - | - |
| Balance at the end of the period / year | 350,029 | 3,102,566 |

For the continuity of warrants during the period, please refer to Note 11.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

14. RELATED PARTY TRANSACTIONS

The aggregate value of transactions recorded relating to key management personnel and entities which they have control or significant influence were as follows:

| | Notes | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|--|-------|---|---|
| EMulate Therapeutics Inc. – License Fees | (a) | - | \$10,000 |
| EMulate Therapeutics Inc. – Royalty Fees | (b) | \$133,988 | \$223,805 |
| Scott Donnell / Donnell Holdings LLC | (c) | \$16,000 | \$96,000 |
| Les Consultants Shtern Inc. | (d) | \$420,000 | \$133,336 |
| 4114566 Canada Inc | (e) | \$257,913 | - |

- (a) During the interim period ended September 30, 2022, EMulate Therapeutics Inc., an entity which has significant influence on the Company charged licence fees.
- (b) EMulate Therapeutics Inc., an entity which has significant influence on the Company charged royalty fees.
- (c) Scott Donnell, the former Chief Executive Officer (“CEO”), and Donnell Holdings LLC, an entity controlled by Scott Donnell, charged consulting fees to the Company.
- (d) Les Consultants Shtern Inc., an entity owned by Yona Shtern, the new CEO, charged consulting fees to the Company. Only \$220,000 of the above amount was paid during the 9-months ended September 30, 2022. The balance was deferred.
- (e) 4114566 Canada Inc, an entity controlled by Kenneth Adessky, the Company’s Secretary. charged consulting fees to the Company.

The following table outlines the Company’s related party payables:

| | September 30, 2022 \$ | December 31, 2021 \$ |
|---------------------------|--------------------------|-------------------------|
| EMulate Therapeutics Inc. | 133,988 | 57,928 |
| Les Consultants Shtern | 200,000 | - |
| 4114566 Canada Inc. | 22,495 | - |
| | 287,161 | 57,928 |

15. CAPITAL MANAGEMENT

The Company’s objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other shareholders. The Company considers the items included in shareholders’ equity as capital. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company’s primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing. The Company is not subject to any externally imposed capital requirements. There were no changes in the Company’s approach to capital management.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash, receivables, accounts payable and convertible debentures. The fair values of the Company's cash and accounts payable approximate their carrying values, due to their short-term natures. The Company's cash is measured at fair value under the fair value hierarchy based on level one quoted prices in active markets for identical assets or liabilities. The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk and price risk.

Credit risk

Credit risk is the risk of loss due to the counterparty's inability to meet its obligations. The Company's exposure to credit risk is on its cash. Risk associated with cash is managed through the use of major banks which are high credit quality financial institutions as determined by rating agencies. Credit risk is assessed as low.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations when they become due. The Company aims to ensure that there is sufficient capital in order to meet short-term operating requirements, after taking into account the Company's holdings of cash. The Company believes that the capital sources will be sufficient to cover the expected cash requirements by obtaining financing through the issuance of debt or shares. Liquidity risk is assessed as high.

Market risk

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

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not currently exposed to interest rate risk.

b) Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potentially adverse impact on the Company's ability to obtain equity financing due to movements in individual equity prices or general movements in the level of the stock market. The Company is not exposed to price risk as it has no instruments in publicly held securities.

c) Foreign currency risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk as all of its operations are in the United States of America, except of cash held in Canadian Dollars which amounted to \$163,095 Canadian Dollars as at September 30, 2022 (December 31, 2021 - \$4,105,712), accounts receivable which

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

amounted to \$Nil Canadian Dollars at September 30, 2022 (December 31, 2021 - \$Nil) and accounts payable which amounted to \$411,274 Canadian Dollars at September 30, 2022 (December 31, 2021 - \$382,847).

17. COMMITMENTS AND CONTINGENCIES

- a) On March 29, 2019, the Company entered into an exclusive license agreement with EMulate Therapeutics Inc. (“EMulate”), which is subsequently amended and restated on October 30, 2019, January 24, 2020, June 1, 2020 and October 26, 2020. The agreement will be in effect for 20 years. Based on the agreement, the Company will obtain from EMulate certain exclusive rights and licenses to develop, use, import, and commercialize consumer digital products using EMulate’s technology. In exchange, the Company will pay EMulate an upfront non-refundable, non-creditable payment of \$1,500,000 by the earlier of April 30, 2020 or the date by which the Company has raised aggregated amounts of \$5 million or more by equity financing. The Company will also pay to EMulate royalties on the quarterly net income from sales, lease or rental of the authorized product in the territory multiplied by a percentage royalty rate of 20%. During the period ended June 30, 2022, the Company has paid license fees of \$Nil (2021 - \$Nil).
- b) On October 30, 2019, the Company entered into an exclusive license agreement with EMulate, which is subsequently amended and restated on January 24, 2020 and June 1, 2020 and October 26, 2020. The agreement will be in effect for 20 years. Based on the agreement, the Company will obtain from EMulate certain exclusive rights and licenses to develop, use, import, and commercialize consumer digital products using EMulate’s technology. In exchange, the Company will pay EMulate an upfront non-refundable, non-creditable payment of \$10,000 for each cognate designated by and provided to the Company. The Company will also pay to EMulate royalties on the quarterly new income from sales, lease or rental of the authorized product in the territory multiplied by a percentage royalty rate of 20%. During the period ended June 30, 2022, the royalty fees payable to Emulate of \$107,161 (2021 - \$151,805).
- c) On April 21, 2021, the Company entered into an exclusive license agreement with Emulate. The agreement will be in effect for 20 years. Based on the agreement, the Company will obtain from EMulate certain exclusive rights and licenses to develop, use, import, and commercialize consumer digital products using EMulate’s technology. In exchange, the Company will pay EMulate an upfront non-refundable, non-creditable payment of \$10,000 for the cognate designated by and provided to the Company. The Company will also pay to EMulate royalties on the quarterly new income from sales, lease or rental of the authorized product in the territory multiplied by a percentage royalty rate of 20%. As at September 30, 2022, the royalty fees payable to Emulate equal \$133,988 (2021 - \$151,805).
- d) On July 29, 2021, the Company entered into an exclusive license agreement with Emulate. The agreement will be in effect for 20 years. Based on the agreement, the Company will obtain from EMulate certain exclusive rights and licenses to develop, use, import, and commercialize consumer digital products using EMulate’s technology. In exchange, the Company will pay EMulate an upfront non-refundable, non-creditable payment of \$10,000 for the cognate designated by and provided to the Company. The Company will also pay to EMulate royalties on the quarterly new income from sales, lease or rental of the authorized product in the territory multiplied by a percentage royalty rate of 20%. During the period ended June 30, 2022, the royalty fees payable to Emulate of \$107,161- (2021—\$151,805Nil).
- e) The Company has entered into a supply agreement with its supplier and committed to purchasing 25,000 units of its primary product with an estimated cost of \$2,500,000.

Hapbee Technologies, Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2022 and 2021

18. SUBSEQUENT EVENTS

The Company raised net proceeds of approximately \$1,119,023 in November 2022 via an equity financing, issuing 22,380,459 units at a price of \$0.07 CDN per unit which consisted in the issuance of 22,380,459 subordinate voting shares of the Company (“Shares”) and 22,380,459 Share purchase warrants (“Warrants”) with each Warrant entitling the holder thereof to acquire one Share at a price of CAD \$0.15 per Share for a period of 2 years from the closing date of the Offering.

The table below summarizes the expected use of funds at December 8, 2022. The Company is expecting to use the funds throughout 2022-2023 to increase sales and scale the business.

| Use of Proceeds | November 2022 Expected Use of Proceeds Approximate Amount (USD\$) |
|----------------------------|--|
| Sales and marketing | 750,000 |
| Inventory | 116,758 |
| Research and development | 69,291 |
| General and administration | <u>182,974</u> |
| Total | <u>\$ 1,119,023</u> |