

Consolidated Financial Statements of

HAPBEE TECHNOLOGIES, INC.

For the years ended December 31, 2022, and 2021

(Expressed in U.S. dollars)

Management's Report

The accompanying consolidated financial statements of Hapbee Technologies, Inc. (the "Company") have been prepared by the Company's management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and a majority of its members are independent directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the consolidated financial statements to the Board of Directors for approval.

Olayinka Oyebola and Co., appointed as the Company's auditors by the Board of Directors, has examined these consolidated financial statements and their report follows.

(signed) "Yona Shtern"
Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Hapbee Technologies, Inc.

Opinion

We have audited the consolidated financial statements of Hapbee Technologies, Inc. (the "Company") which comprise the consolidated statements of financial position as at December 31, 2022 and 2021 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements").

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

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our 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 of the accompanying consolidated financial statements, which indicates that the company Incurred a net loss of **\$3,674,034** during the year ended December 31, 2022, deficit working capital of **\$1,369,015** and accumulated deficit of **\$21,163.093** at December 31, 2022. The company has not achieved profitable operations as stated in Note 1, these events and conditions indicate 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.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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 as issued by the International Accounting Standards Board, 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditors' report is Olayinka Oyebola.

OLAYINKA OYEBOLA & CO
CHARTERED ACCOUNTANTS
Lagos, Nigeria
June 29, 2023

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

Expressed in U.S. dollars

	2022	2021
	\$	\$
Assets		
Current assets		
Cash	295,221	3,630,119
Receivables	170,548	91,926
Inventory (note 4)	261,150	283,596
Prepaid expenses	-	-
	726,919	4,005,641
Intangible assets (note 5)	2,070,738	2,283,235
Total assets	2,797,657	6,288,876
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	1,647,040	965,867
Product warranty liability (note 7)	57,786	52,805
Unearned revenue (note 8)	391,108	579,352
Total current liabilities	2,095,934	1,598,024
Warrant liability (note 14)	701,700	3,102,566
Total liabilities	2,797,634	4,700,590
Equity		
Share capital (note 10)	14,632,464	13,341,355
Reserves	6,550,652	5,702,819
Accumulated other comprehensive income	-	33,171
Accumulated deficit	(21,163,093)	(17,489,059)
Total shareholders' equity	20,023	1,588,286
Total liabilities and shareholders' equity	2,797,657	6,288,876

Nature of operations and going concern (note 1)

Basis of presentation (note 2)

Commitments and contingencies (note 20)

Subsequent events (note 21)

Approved on behalf of the Board of Directors on June 29, 2023.

"Michael Matysik"
 Director

"Robert Dzisiak"
 Director

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

Hapbee Technologies, Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2022 and 2021

Expressed in U.S. dollars

	2022	2021
	\$	\$
Revenues		
Sales on products	1,820,541	1,728,530
Cost of goods sold	(881,052)	(1,249,241)
	939,489	479,289
Other revenue		
Shipping income	10,664	11,172
Expenses		
Amortization of intangible assets (note 5)	212,498	212,121
Consulting	3,935,873	3,235,548
General and administrative (note 19)	1,754,093	2,349,169
Interest accretion and expense on convertible debentures	-	-
Product development costs	196,055	266,698
Professional fees	163,282	235,511
Salaries and wages	375,350	254,790
Royalty fees	178,076	-
Share-based compensation (note 11)	928,595	3,080,510
Total operating expenses	(7,743,822)	(9,634,347)
Operating loss before other item	(6,793,669)	(9,143,886)
Other item:		
Change in fair value of warrant liability (note 14)	3,119,635	2,391,914
Net loss for the year	(3,674,034)	(6,751,972)
Other comprehensive income	-	3,651
Net loss and comprehensive loss for the year	(3,674,034)	(6,748,321)
Loss per share— basic and diluted (note 13)	(\$0.05)	(\$0.13)
Weighted-average number of shares outstanding – basic and diluted	76,630,440	50,722,011

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

Hapbee Technologies, Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31, 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
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, January 1, 2021	46,938,056	10,294,876	450,000	39	29,520	2,621,825	(10,737,087)	2,209,173
Issuance of shares for non-brokered private placement (note 11)	20,308,963	1,922,776	-	-	-	-	-	1,922,776
Issuance of finder's shares (note 10)	205,660	48,219	-	-	-	-	-	48,219
Share issuance cost (note 10)	-	(179,184)	-	-	-	41,049	-	(138,135)
Share-based compensation (note 11)	-	-	-	-	-	3,080,510	-	3,080,510
Exercise of warrants (note 10)	1,588,277	1,254,629	-	-	-	(40,565)	-	1,214,064
Net loss and comprehensive loss for the year	-	-	-	-	3,651	-	(6,751,972)	(6,748,321)
Balance, December 31, 2021	69,040,956	13,341,316	450,000	39	33,171	5,702,819	(17,489,059)	1,588,286
Issuance of shares for non-brokered private placement (note 10)	27,688,353	710,768	-	-	-	-	-	710,568
Issuance of finder's shares (note 10)	70,000	26,425	-	-	-	-	-	26,425
Share issuance cost (note 10)	-	(135,884)	-	-	-	-	-	(135,884)
Exercise of RSUs	1,725,000	690,000	-	-	-	-	-	690,000
Share-based compensation	-	-	-	-	-	928,595	-	928,595
Fair value finder's warrants	-	-	-	-	-	36,713	-	36,713
Change in fair value of finder's warrants	-	-	-	-	-	(117,475)	-	(117,475)
Net loss and comprehensive loss for the year	-	-	-	-	(33,171)	-	(3,674,034)	(3,707,205)
Balance, December 31, 2022	98,524,309	14,632,425	450,000	39	-	6,550,652	(21,163,093)	20,023

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

Hapbee Technologies, Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021

Expressed in U.S. dollars

	2022	2021
	\$	\$
Operating activities		
Net loss for the year	(3,674,034)	(6,751,972)
Items not involving cash:		
Amortization of intangible assets	212,498	212,121
Finders' warrants	36,713	-
Finders' shares	26,425	-
Share-based compensation	928,595	3,080,510
Change in fair value of warrant liability	(3,119,635)	(2,391,914)
Changes in non-cash working capital balances:		
Decrease / (increase) in receivables	(78,622)	238
Decrease / (increase) in prepaid expenses	-	227,661
Decrease / (increase) in inventory	22,446	(253,767)
Increase in accounts payable and accrued liabilities	681,173	359,112
(Decrease) / increase in product warranty liability	4,981	52,805
(Decrease) / increase in unearned revenue	(188,244)	390,961
Net cash used in operating activities	(5,147,704)	(5,074,245)
Investing activities		
License fees paid	-	(20,000)
Development costs incurred	-	-
Cash acquired on amalgamation	-	-
Net cash used in investing activities	-	(20,000)
Financing activities		
Proceeds from subordinated voting shares issuances	2,419,093	4,761,589
Proceeds from convertible debenture issuances	-	-
Exercise of warrants	(307,957)	592,195
Warrant liability	(129,275)	-
Share issuance costs	(135,884)	(89,916)
Net cash provided by financing activities	1,845,977	5,263,868
Effect of foreign exchange on cash	(33,171)	45,544
Increase (decrease) in cash during the year	(3,334,898)	215,167
Cash, beginning of the year	3,630,119	3,414,952
Cash, end of the year	295,221	3,630,119

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

Hapbee Technologies, Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

1. NATURE OF OPERATIONS AND GOING CONCERN

Hapbee Technologies, Inc. (the “Company”) was 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 16, 2020, the Company completed an amalgamation with Zander Capital Ltd. (“Zander”), refer to Note 6 for details.

The Company’s operations have been financed to date through the sale of equity instruments and issuance of debt. The Company has incurred a significant operating loss since inception and has an accumulated deficit of \$20,785,758 as at December 31, 2022.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. The Company’s ability to continue as a going concern depends upon its ability to generate sufficient cash flows from the issuance of debt and equity instruments and generate profitable operations in the future. There is a material uncertainty related to these conditions that casts doubt about 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.

2. BASIS OF PRESENTATION

a) Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

b) Reclassification of prior year amounts

The Company has reclassified certain items on the comparative consolidated statements of loss and comprehensive loss and cash flows to conform with current year’s presentation.

c) Basis of Preparation

These consolidated 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 consolidated financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information. The consolidated financial statements, unless otherwise specified, are presented in US dollars, which is the functional currency of the Company.

Hapbee Technologies, Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

2. BASIS OF PRESENTATION (CONTINUED)

d) Functional and presentation currency

These consolidated 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.

e) Basis of consolidation

These 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 consolidated financial statements.

f) Approval of the Consolidated Financial Statements

The consolidated financial statements of the Company for the year ended December 31, 2022 were approved and authorized for issue by the Board of Directors on June 29, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these 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 are accounted for as derivative liabilities (see Note 15).

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.

Hapbee Technologies, Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Critical accounting judgments and estimates (continued)

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.

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. 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 CGU to which the asset belongs. This requires management to make certain estimates and judgements which could be materially 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

Hapbee Technologies, Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial Instruments (continued)

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

Financial Assets

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

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 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.

Hapbee Technologies, Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

f) Product warranty liability

During the years ended December 31, 2022 and 2021, the Company provided a one month money-back satisfaction guarantee on the Company's Hapbee devices. A customer is able to receive a refund for a Hapbee device within one month of the purchase date. Provisions are recognized when, as a consequence of a past event, the Company has a legal or constructive obligation and it is probable that there will be an outflow of the Company's resources to settle the obligation.

Provisions are measured at management's best estimate of the costs required to settle the obligation. Discounting is applied where relevant. Actual warranty costs are charged against the income statement when incurred. The product warranty liability on the balance sheet represents the Company's estimated cost of the outstanding warranty upon recognition of the sale of the product. The costs are estimated based on actual historical costs incurred and on estimated future costs related to current sales, and are updated periodically.

g) 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 is 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.

h) 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.

Hapbee Technologies, Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) 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.

j) Share capital

Subordinated voting shares and multiple voting shares are classified as equity. Incremental costs directly attributable to the issuance of new equity instruments are taken to equity as a deduction, net of tax, from the proceeds. When units consisting shares and warrants are issued in private placements, the Company allocates the proceeds to the shares and warrants on a residual basis.

k) Share issue costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred share issue costs related to financing transactions that are not completed are charged to expenses.

l) 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.

Hapbee Technologies, Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Income taxes (continued)

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.

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.

m) 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.

n) 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 consolidated financial statements as at December 31, 2022.

Hapbee Technologies, Inc.
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) 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.

p) 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 17).

q) 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 are 20 years.

r) 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.

s) 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, 2022 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.

Hapbee Technologies, Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

4. INVENTORY

	<u>2022</u>	<u>2021</u>
	\$	\$
Finished goods	261,150	283,596

During the year ended December 31, 2022, the Company recognized \$456,286 (2021: \$661,110) of inventory as cost of goods sold.

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.

Pursuant to amendments to the License Agreement with Emulate, the effective date of the License Agreement was changed to October 26, 2020. All other terms remain unchanged.

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.

Pursuant to amendments to the License Agreement with Emulate, the effective date of the License Agreement was changed to October 26, 2020. All other terms remain unchanged.

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 of April 21, 2021.

Hapbee Technologies, Inc.
Notes to the Consolidated Financial Statements
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5. INTANGIBLE ASSETS (CONTINUED)

a) 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 of July 29, 2021.

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

b) Development Costs

During the year, the Company incurred development costs of \$NIL (2021: \$NIL) related to the development of an augmentative wearable device 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 December 31, 2022:

	2022	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	(199,250)	(121,750)
Amortization of intangible assets - development costs	(359,992)	(224,995)
	<hr/>	<hr/>
	2,070,738	2,283,235

Hapbee Technologies, Inc.
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6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2022</u>	<u>2021</u>
	\$	\$
Trade accounts payable and accrued liabilities	1,239,258	686,103
Amounts payable to related parties (note 17)	387,782	279,764
	<u>1,627,040</u>	<u>965,867</u>

7. PRODUCT WARRANTY LIABILITY

	<u>2022</u>	<u>2021</u>
	\$	\$
Product warranty liability	57,786	52,805

8. UNEARNED REVENUE

	<u>2022</u>	<u>2021</u>
	\$	\$
Unearned revenue	391,108	579,352

The Company records unearned revenue pertaining to the unearned portions of the subscriptions collected from customers.

9. CONVERTIBLE DEBENTURES

There are no convertible debentures outstanding as at December 31, 2022 or at December 31, 2021.

10. 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.

Hapbee Technologies, Inc.
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10. SHARE CAPITAL (CONTINUED)

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 December 31, 2022, the Company has 98,524,309 Subordinated Voting Shares issued and outstanding and 450,000 Multiple Voting Shares issued and outstanding.

Shares Issuance

Fiscal Year 2020

- During the period from January 1, 2020 to June 4, 2020, the Company completed a private placement of an aggregate of 2,497,500 common shares at a price of \$0.22 per share for aggregate gross proceeds of \$555,000.
- On June 15, 2020, the Company completed a forward stock split of its shares on a 1 for 4.5 basis. Particulars of the share consolidation were approved by the shareholders at the Company’s AGM on June 15, 2020. The Company had 13,455,000 common shares issued and outstanding and the resulting post share split shares outstanding are 60,547,500. All share information was updated to reflect this stock split. The exercise price and number of common shares issuable pursuant to all share capital have been adjusted in accordance with the stock split ratio.

Hapbee Technologies, Inc.
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10. SHARE CAPITAL (CONTINUED)

- 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. 60,547,500 common shares previously issued were cancelled and replaced by 60,547,500 Subordinated Voting Shares.
- On June 15, 2020, the Company exchanged 45,000,000 Subordinated Voting Shares owned by EMulate Therapeutics Inc. and Scott Donnell for 450,000 Multiple Voting Shares.
- On June 16, 2020, the Company issued 8,724,401 Subordinated Voting Shares upon the completion of the amalgamation with Zander, refer to Note 6 for details.
- On June 16, 2020, the Company issued 200,000 Subordinated Voting Shares to a director of the Company at a deemed price of \$0.22 per share.
- On June 25, 2020, the Company issued 716,357 Subordinated Voting Shares to a finder of the Convertible Debentures (Note 10).
- On October 27, 2020, the principal amounts of Convertible Debentures, which were issued on June 25, 2020 and July 13, 2020, have automatically converted into 21,655,882 units (the “Convertible Debenture Units”) of the Company, 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”) (Note 10).
- On October 30, 2020, the Company’s Subordinate Voting Shares were listed on the TSX Venture Exchange.

Fiscal Year 2021

- 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.
- 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.

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10. SHARE CAPITAL (CONTINUED)

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 \$26,390 (\$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 of \$11,049 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 \$878,692 on the date of issuance as a warrant liability and the residual of \$368,132 was allocated to the share capital.
- On November 9, 2022, the Company closed a non-brokered private placement of 22,380,459 units at \$C0.07 per unit for total proceeds of \$1,160,468 (\$C1,566,632). 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 \$C0.15 per share for a period of 24 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 \$C0.50 for the 10 consecutive trading days preceding the notice date. In connection with the private placement, the Company paid no finders' fees. 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 \$817,832 on the date of issuance as a warrant liability and the residual of \$342,635 was allocated to the share capital.

11. 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, 2022, Company granted 3,350,000 (2021: 970,000) stock options to its directors, officers and consultants with a value of \$234,500 (2021: \$264.879) or \$0.07 (2021: \$0.27) 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.

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11. STOCK OPTIONS AND RESTRICTED SHARE UNITS (CONTINUED)

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.

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

On October 15, 2022, the Company granted 3,375,000 stock options to officers, directors and consultants of the Company pursuant to the Company's Plan. The options are all exercisable at the price of \$0.07 (C\$0.09) per share until October 15, 2029, subject to earlier termination in accordance with the Plan.

Hapbee Technologies, Inc.
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11. STOCK OPTIONS AND RESTRICTED SHARE UNITS (CONTINUED)

The stock options outstanding and exercisable as at December 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, 2021	40,000	0.53
Granted	June 1, 2021	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
Expired		(3,006,875)	0.39
Granted	Oct 15, 2022	3,375,000	0.07
Outstanding at December 31, 2022		8,605,000	0.29
Exercisable at December 31, 2022		5,230,000	0.42

The number of options exercisable as at December 30, 2022 was 5,230,000 (2021 – 8,041,250). The weighted average life remaining for these options were 6.0 years and weighted average exercise price was \$0.42 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.

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.

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11. STOCK OPTIONS AND RESTRICTED SHARE UNITS (CONTINUED)

On October 15, 2022, the Company granted an aggregate of 3,375,000 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 \$0.07 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.

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 December 30, 2022 the Company has 9,967,875 RSUs issued and outstanding and 3,106,711 RSUs exercisable.

12. WARRANTS

In connection with the private placement closed during the year 2021, the Company issued 20,308,963 non-transferrable warrants. 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 fair value of the warrants was valued at \$180,089 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 1.9 years.

In connection with a private placement closed during the year 2022, the Company issued 5,307,894 non-transferrable warrants. 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 fair value of warrants was valued at \$54,472 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 2.1 years.

In connection with a private placement closed during the year 2022, the Company issued 22,380,459 non-transferrable warrants. Each warrant entitles the holder thereof to purchase one additional subordinate voting share of the Company at a price of \$C0.15 per share for a period of 24 months from the closing date. The fair value of warrants was valued at \$467,139 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 1.9 years.

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12. WARRANTS (CONTINUED)

The warrants outstanding and exercisable as at December 31, 2022 are as follows:

	Expiry date	Number of warrants outstanding	Number of warrants exercisable	Exercise Price (\$)
Balance December 31, 2019		-	-	-
Granted	June 25, 2022	976,523	976,523	0.22
Granted	July 31, 2022	223,073	223,073	0.22
Granted	October 27, 2022	10,827,938	10,827,938	0.37
Exercised	October 27, 2022	(93,916)	(93,916)	0.37
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 29, 2024	5,307,894	5,307,894	0.37
Granted	January 29, 2024	182,000	182,000	0.37
Granted	November 8, 2024	22,380,459	22,380,459	0.11
Expired		(589,166)	(589,166)	0.39
Expired		(10,345,341)	(10,345,341)	0.37
Balance December 31, 2022		48,179,316	48,179,316	0.29

As at the date of this MD&A, the Company has 55,901,766 warrants issued and outstanding. (See “Subsequent Event”)

13. LOSS PER SHARE

The weighted average number of shares outstanding for the year ended December 31, 2022 was 76,630,440. The Company included both weighted average subordinated common shares outstanding and weighted average multiple voting shares outstanding to the loss per share calculation.

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14. 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 of the exercise price 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:

	December 31, 2022	December 31, 2021
	\$	\$
Balance at beginning of the year	3,102,566	3,235,642
Additions	3,110,683	2,883,137
Fair value adjustment	(5,511,549)	(2,391,914)
Exercise of warrants	-	(624,299)
Other	-	-
Balance at the end of the year	701,700	3,102,566

Continuity of the underlying warrants during the year is as follows:

	Underlying warrants	Weighted Average Exercise Price
Warrants outstanding and exercisable, December 31, 2021	31,243,470	\$0.38
Granted	27,870,353	\$0.16
Exercised	-	-
Expired	(10,934,507)	0.37
Warrants outstanding and exercisable, December 31, 2022	48,179,316	\$0.26

As at December 31, 2022, the weighted average remaining contractual life of warrants outstanding was 1.9 years.

Valuation of the warrant liability requires the use of highly subjective estimates and assumptions including the expected stock price volatility. The expected volatility used in valuing warrants is based on volatility observed in historical periods and comparative companies' historical information. Changes in the underlying assumptions can materially affect the fair value estimates. The fair value of the warrant liability was calculated using the Black-Scholes model with the following weighted average assumptions and resulting fair values:

	December 31, 2022	December 31, 2021
Risk-free interest rate	1.13%	0.20%
Expected dividend yield	0%	0%
Expected warrant life (years)	2.90	1.82
Estimated stock price volatility	110%	100%
Fair value	\$0.17	\$0.31

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15. INCOME TAXES

The provision for income taxes reported differs from the amounts computed by applying the applicable income tax rates to the net loss before tax provision due to the following:

	<u>2022</u>	<u>2021</u>
	\$	\$
Loss before income taxes	(3,322,363)	(6,731,972)
Statutory rate	21 - 27%	21 - 27%
Tax recovery at statutory rate	(797,000)	(1,652,000)
Change in unrecognized deductible temporary differences	1,048,000	2,174,000
Permanent differences	(251,000)	(522,000)
Income tax recovery	-	-
	<u>2022</u>	<u>2021</u>
	\$	\$
Deferred income tax assets		
Losses carried forward	3,518,000	2,721,000
Share issuance costs	39,000	39,000
Intangible assets	33,000	33,000
Capitalized development cost	61,000	61,000
Deferred income tax liabilities	3,651,000	2,854,000
Unrecognized deferred income tax assets	(3,651,000)	(2,854,000)
Net deferred income tax assets	-	-

Non-capital losses

As at December 31, 2022, the Company has estimated non-capital losses for Canadian income tax purposes of \$14,088,000 that may be carried forward to reduce taxable income derived in future years. These losses begin expiring in 2039.

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16. 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:

	Note	2022	2021
	s	(\$)	(\$)
EMulate Therapeutics Inc. – License Fees	(a)	-	20,000
EMulate Therapeutics Inc. – Development Costs	(b)	-	84,242
EMulate Therapeutics Inc. – Royalty Fees	(c)	178,076	278,588
Scott Donnell / Donnell Holdings LLC	(d)	16,000	120,000
Les Consultants Shtern Inc.	(e)	499,996	250,004
Premier CFO LLC	(f)	150,912	60,000
MK & Associates	(g)	34,705	-
4114566 Canada Inc.	(h)	102,640	-

- (a) EMulate Therapeutics Inc., an entity which has significant influence on the Company charged license fees. See note 5.
- (b) EMulate Therapeutics Inc., an entity which has significant influence on the Company charged development costs. See note 5.
- (c) EMulate Therapeutics Inc., an entity which has significant influence on the Company charged royalty fees. See note 5.
- (d) Scott Donnell, the former Chief Executive Officer (“CFO”), and Donnell Holdings LLC, an entity controlled by Scott Donnell charged consulting fees to the Company.
- (e) Les Consultants Shtern Inc., an entity owned by Yona Shtern, the new CEO charged consulting fees to the Company.
- (f) Premier CFO LLC, an entity controlled by the Company’s former Chief Financial Officer, charged consulting fees to the Company.
- (g) MK & Associates, an entity controlled by the Company’s Chief Financial Officer, charged consulting fees to the Company.
- (h) 4114566 Canada Inc., an entity controlled by the Company’s Corporate Secretary, charged consulting fees to the Company.

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

	2022	2021
	\$	\$
Les Consultants Shtern	268,240	-
MK & Associates	30,438	-
4114589 Canada Inc.	89,104	-
EMulate Therapeutics Inc.	-	57,928
	387,782	57,928

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17. 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.

18. 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 and accounts receivable. 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.

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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 \$4,105,712 Canadian Dollars as at December 31, 2022 (2021: \$3,803,311 – December 31, 2021), accounts receivable which amounted to \$Nil Canadian Dollars at December 31, 2022 (2021: \$3,619) and accounts payable which amounted to \$382,847 Canadian Dollars at December 31, 2022 (2021: \$8,770).

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
	\$	\$
Foreign exchange recovery	(10,272)	(31,830)
Marketing and selling	942,951	1,655,683
Office	652,289	600,125
Travel and entertainment	169,125	125,191
	1,754,093	2,349,169

20. 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 a 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 year ended December 31, 2022, the Company has paid or accrued 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 a 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 year ended December 31, 2022, the Company has accrued royalty fees to Emulate of \$178,076 (2021 - \$278,588).

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20. COMMITMENTS AND CONTINGENCIES (CONTINUED)

- c) On April 21, 2020, 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 a 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 year ended December 31, 2022, the Company has paid or accrued royalty fees to Emulate of \$Nil.
- d) On July 29, 2020, 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 a 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 year ended December 31, 2022, the Company has paid or accrued royalty fees to Emulate of \$Nil.
- e) The Company has entered into a supply agreement with a supplier and committed to purchasing 25,000 units of its primary product with an estimated cost of \$2,500,000.

21. SUBSEQUENT EVENTS

On June 2, 2023, the Company closed a non-brokered private placement of 7,904,450 units at \$C0.09 per unit for total proceeds of \$534,887. 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 \$C0.15 per share for a period of 24 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 \$C0.40 for the 10 consecutive trading days preceding the notice date.

The Company through its Board of Directors accepted the resignation letter of Manning Elliott, the Previous Auditor effective June 9, 2023, who resigned at its own initiative. The resignation of the Manning Elliot and the appointment of the Olayinka Oyebola & Co, the New Auditor were considered and approved by the Board based on the recommendation of the audit committee of the Board. Manning Elliott did not express a modified opinion in any of its reports for: (a) the audits of the two most recently completed fiscal years of Hapbee; or (b) any period subsequent to the two most recently completed fiscal years of Hapbee and ending before June 9, 2023. The notice of change of auditor and the auditors letters are available on SEDAR at www.sedar.com.