

Consolidated Financial Statements

Bhang Inc.

For the Years Ended December 31, 2021 and 2020

(Expressed in United States Dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bhang Inc.

Report on the Audit of the Consolidated Financial Statements**Opinion**

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

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

Basis for Opinion

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

Other Matters

The consolidated financial statement of Bhang Inc. for the year ended December 31, 2020, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on June 22, 2022.

Material Uncertainty Related to Going Concern

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

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements.

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

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

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

Vancouver, British Columbia
May 30, 2022

HARBORSIDE CPA LLP
Harbourside CPA, LLP
Chartered Professional Accountants

Bhang Inc.

Consolidated Statements of Financial Position

As at December 31, 2021 and 2020

(Expressed in United States Dollars)

	2021	2020
Assets		
Current Assets		
Cash	\$ 491,094	\$ 69,654
Trade and other receivables, net (note 22(c))	189,948	246,434
Inventory (note 8)	184,928	204,736
Prepaid expenses	122,812	169,760
Marketable securities (note 10)	608,656	-
Contract assets (note 22(c))	42,615	54,418
Total Current Assets	1,640,053	745,002
Non-Current Assets		
Marketable securities (note 10)	-	989,509
Property and equipment (note 11)	79,308	152,667
Total Assets	1,719,361	1,887,178
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	978,251	1,176,151
Contract liability (note 22(c))	219,715	150,242
Due to shareholder (note 16)	144,192	1,191,539
Promissory note - current portion (note 13)	-	5,354
Total Current Liabilities	1,342,158	2,523,286
Non-Current Liabilities		
Promissory note (note 13)	-	2,246
Contract liability (note 22(c))	634,710	750,000
Total Liabilities	1,976,868	3,275,532
Shareholders' Equity (Deficiency)		
Share capital (note 17)	22,147,378	18,178,610
Contributed surplus (note 18)	3,323,522	2,877,652
Accumulated other comprehensive loss	(83,726)	(97,957)
Accumulated deficit	(25,644,681)	(22,346,659)
Total Shareholder's Deficiency	(257,507)	(1,388,354)
Total Liabilities and Shareholders' Deficiency	\$ 1,719,361	\$ 1,887,178

Going Concern (Note 1)

Subsequent Events (Note 33)

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

Approved on behalf of the Board:

Signed "Jamie Pearson", director _____

Signed "Graham Simmonds", director _____

Bhang Inc.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2021 and 2020
(Expressed in United States Dollars)

	2021	2020
Revenue		
Product sales (note 20 and 29)	\$ 74,835	\$ 120,915
Licensing (note 20, 22 and 29)	1,191,621	1,496,602
Other (note 29)	-	9,964
	<u>1,266,456</u>	<u>1,627,481</u>
Cost of Sales	<u>424,744</u>	<u>718,618</u>
Gross Profit	<u>841,712</u>	<u>908,863</u>
Expenses		
Wages and salaries	1,023,331	960,819
Sales and marketing	854,426	232,319
Professional fees	889,926	1,372,803
Publicity and investor relations	18,833	30,700
General and administrative (note 24)	496,924	400,144
Share-based compensation (note 18)	585,512	761,281
Provision for (recovery of) bad debts (note 22(i)(c))	(49,399)	294,827
	<u>3,819,553</u>	<u>4,052,893</u>
Loss Before the Undernoted	(2,977,841)	(3,144,030)
Other Income (Loss)		
Interest expense (note 16)	(20,611)	(40,440)
Interest expense on lease liabilities (note 14)	-	(659)
Interest accretion (note 15)	-	(26,884)
Unrealized loss on marketable securities (note 10)	(389,399)	(21,484)
Realized gain (loss) on marketable securities (note 10)	-	(104,008)
Impairment of property and equipment (note 11)	(15,020)	(73,463)
Gain (loss) on disposal of assets	15,229	56,535
Loss on settlement of debt (note 30)	-	(1,083,227)
Loss on disposition of investment in Joint Venture (note 9)	-	(100,000)
Foreign exchange loss	(266)	(26,561)
Government assistance (note 13)	89,886	142,567
Net Loss for the year from continuing operations	(3,298,022)	(4,421,654)
Income from discontinued operations (note 32)	<u>-</u>	<u>3,316</u>
Net Loss for the year	(3,298,022)	(4,418,338)
Currency translation adjustment	14,231	(32,054)
Comprehensive Loss for the year	<u>\$ (3,283,791)</u>	<u>\$ (4,450,392)</u>
Net Loss per Share – basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
Weighted Average Number of SVS and MVS Outstanding – basic and diluted	<u>192,723,258</u>	<u>139,419,484</u>

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

Bhang Inc.

Consolidated Statements of Changes in Shareholders' Deficiency

For the years ended December 31, 2021 and 2020

(Expressed in United States Dollars)

	Note #	Share Capital			Contributed Surplus	Share	Equity Portion of			Shareholders' Deficiency
		SVS	MVS	Amount		Subscriptions Payable	Promissory Notes	AOCI	Accumulated Deficit	
Balance - January 1, 2020		51,512,502	61,377.20	\$ 15,782,234	\$ 776,664	\$ 1,000,000	\$ 36,995	\$ (65,903)	\$ (18,181,634)	\$ (651,644)
Proceeds of private placements	17(iii)	3,571,428	-	270,075	106,148	-	-	-	-	376,223
Issued in connection with share swap	17(ii)	14,285,714	-	967,541	-	-	-	-	-	967,541
Issued to acquire CB Brands	17(i)	536,016	-	80,616	-	-	-	-	-	80,616
Issued for services rendered	17(iv),(v),(x)	2,780,000	-	126,156	23,661	-	-	-	-	149,817
Issued pursuant to debt settlements	17(iii) and (xi)	8,546,072	-	379,444	53,450	-	-	-	-	432,894
Issued in connection with debt extinguishment	17(vii)	6,666,667	-	483,154	254,408	-	(36,995)	-	36,995	737,562
Conversion of MVS to SVS	17(vi)	14,084,701	(14,084.70)	-	-	-	-	-	-	-
Other share-based payments	17(viii) and 18(b)(ii)	12,809,524	-	1,179,601	200,801	-	-	-	-	1,380,402
Renegotiation of license agreement	9	-	-	-	-	(1,000,000)	-	-	-	(1,000,000)
MVS reacquired upon disposition of Red Ace	3 and 17(ix)	-	(2,379.12)	(170,444)	-	-	-	-	154,405	(16,039)
Share-based compensation	17(iv), (v) and 18	-	-	-	499,433	-	-	-	-	499,433
SVS cancelled	21(v)	(10,000,000)	-	(900,000)	900,000	-	-	-	-	-
SVS issuance costs	17(ii)	-	-	(19,767)	-	-	-	-	-	(19,767)
Expiry of stock options	18	-	-	-	(61,913)	-	-	-	61,913	-
Shares to be issued to member of key management	21(iii)	-	-	-	125,000	-	-	-	-	125,000
Net loss for the year	-	-	-	-	-	-	-	-	(4,418,338)	(4,418,338)
Cumulative translation reserve	-	-	-	-	-	-	-	(32,054)	-	(32,054)
Balance - December 31, 2020		104,792,624	44,913.38	\$ 18,178,610	\$ 2,877,652	\$ -	\$ -	\$ (97,957)	\$ (22,346,659)	\$ (1,388,354)
Proceeds of private placement	17(i)	27,240,192	-	1,408,416	-	-	-	-	-	1,408,416
SVS issued in connection with the settlement of amount due to shareholder	16, 17 (ii)	23,661,623	-	1,214,088	-	-	-	-	-	1,214,088
Conversion of MVS to SVS	17 (iv)	20,013,876	(20,013.88)	-	-	-	-	-	-	-
Share-based compensation	18 (i)	-	-	-	156,745	-	-	-	-	156,745
SVS issuance costs	-	-	-	(13,255)	-	-	-	-	-	(13,255)
Proceeds of private placement - Fair value of Warrant	17 (v)	-	-	206,751	-	-	-	-	-	206,751
Proceeds of private placement - Fair Value of Shares	17 (v)	22,147,400	-	741,545	-	-	-	-	-	741,545
SVS issuance costs	-	-	-	(26,183)	-	-	-	-	-	(26,183)
Issuance of finder warrants	18 (ii)	-	-	(16,781)	16,781	-	-	-	-	-
Shares issued in connection with settlement of a bonus due to CEO	17 (vi)	3,194,000	-	201,546	-	-	-	-	-	201,546
Shares issued in connection with settlement of marketing expenses	17 (vi)	1,500,000	-	94,652	-	-	-	-	-	94,652
Stock option grant	18 (i)	-	-	-	206,328	-	-	-	-	206,328
Issuance of 2,062,500 RSUs	17(iii)	2,062,500	-	130,147	-	-	-	-	-	130,147
Vesting of RSUs	17 (viii)	500,000	-	27,842	(27,842)	-	-	-	-	-
Cancellation of restricted shares	17 (ix)	(170,000)	-	-	-	-	-	-	-	-
Issuance of share purchase warrants	18 (ii)	-	-	-	93,858	-	-	-	-	93,858
Net loss for the year	-	-	-	-	-	-	-	-	(3,298,022)	(3,298,022)
Cumulative translation reserve	-	-	-	-	-	-	-	14,231	-	14,231
Balance - December 31, 2021		204,942,215	24,899.50	\$ 22,147,378	\$ 3,323,522	\$ -	\$ -	\$ (83,726)	\$ (25,644,681)	\$ (257,507)

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

Bhang Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020

Expressed in United States Dollars

	2021	2020
Cash provided by (used in)		
Operating Activities		
Net loss for the year from continuing operations	\$ (3,298,022)	\$ (4,421,654)
Income from discontinued operation	-	3,316
Net loss	\$ (3,298,022)	\$ (4,418,338)
Adjustment for items included in net income (loss) (note 25)	(70,794)	(101,468)
Adjustments for non-cash items in net income (loss):		
Depreciation of property and equipment	44,994	60,250
Depreciation of right of use assets	-	29,289
Provision (recovery) for bad debts	(49,399)	294,827
Unrealized loss on marketable securities	389,399	21,484
Realized loss (gain) on disposition of marketable securities	-	104,008
Loss on disposition of investment in Indiva JV	-	100,000
Gain on disposition of Red Ace	-	(166,696)
Share-based compensation	882,842	761,281
Loss (gain) on settlement of debt (note 30)	-	1,083,227
Interest accretion	-	26,884
Inventory write-offs (note 8)	18,378	391,662
Loss (gain) on disposal of assets	(15,229)	(56,535)
Impairment of property and equipment	15,020	73,463
License revenue paid in kind (note 20)	-	(635,107)
	(2,082,811)	(2,431,769)
Changes in non-cash working capital items (note 26)	(38,088)	233,026
Net cash used in operating activities	(2,120,899)	(2,198,743)
Net cash provided by (used in) investing activities (note 27)	(2,534)	339,221
Net cash provided by financing activities (note 28)	2,532,942	1,599,707
Change in cash	409,509	(259,815)
Foreign exchange on cash	11,931	(61,186)
Cash - beginning of year	69,654	390,655
Cash - end of year	\$ 491,094	\$ 69,654
Supplemental cash flow disclosure		
Interest paid	1,519	659
SVS and warrants issued for services rendered	297,330	150,177
SVS issued in connection with the Transaction	2,356,712	-
MVS reacquired and cancelled upon divestiture of Red Ace	-	16,039
SVS issued in connection with Share Swap	-	967,541
SVS issued to acquire remaining interest in CB Brands	-	80,616
SVS and warrants issued pursuant to debt extinguishment and settlements	1,214,088	1,117,006
SVS and warrants in connection with other share-based payments	585,512	1,380,402

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

Bhang Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
Expressed in United States Dollars

1. Nature of Operations and Going Concern

Bhang Inc. (the "Company") is a publicly listed company incorporated in Canada under the Business Corporations Act (Ontario). On November 8, 2018, the Company entered into a definitive transaction agreement ("the "Definitive Agreement") with Bhang, Bhang Canada Inc. ("Bhang Canada") and Pele Acquisition Corp. ("Pele Subco") which resulted, through a series of transactions, in the acquisition of all the equity interest of Bhang and Bhang Canada by the Company (the "Transaction"), such that, immediately following completion of the Transaction, approximately 85% of the issued and outstanding shares of the Company were owned by the former shareholder of Bhang. On July 11, 2019, the Company's subordinated voting shares commenced trading on the Canadian Securities Exchange (the "CSE") under the stock symbol "BHNG". Prior to trading on the CSE, the Company's shares traded on the TSX Venture Exchange under the symbol "GEM". On August 30, 2019, the Company's subordinated voting shares commenced trading on the OTCQX Best Market (the "OSC") under the stock symbol "BHNGF". The Company's previous trading symbol on the OTCQX was "GOLDF". The Company, through its partners and licensees, produces and distributes cannabis-infused products that are distributed worldwide.

The registered address of the Company is located at 40 King Street West, Suite 5800, Toronto, Ontario, Canada, M5H 3S1.

These consolidated financial statements for the years ended December 31, 2021 and 2020, include the Company, its wholly-owned subsidiaries Bhang Canada Corp., and Bhang Corporation ("Bhang") and 2838301 Ontario Inc., and Bhang's wholly-owned subsidiaries, CB Brands, LLC ("CB Brands"), CB Productions, LLC ("CB Productions"), Founding Fathers' Hemp Company ("Founding Fathers") and Euro Brand IP Holdings, LLC ("Euro Brand") collectively referred to as the "Subsidiaries". Except for Bhang, Bhang Canada Corp. and 2838301, all of the Company's subsidiaries were non-operating during the year ended December 31, 2021.

During the year ended December 31, 2020, the Company disposed of its interest in its wholly-owned subsidiary Red Ace, LLC ("Red Ace"). Red Ace's items of income and expenses for the period it was a wholly-owned subsidiary of the Company, and the related gain on the disposition of Red Ace are presented in the consolidated statement of loss and comprehensive loss as income from discontinued operations.

These consolidated financial statements are prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of the business.

Bhang Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
Expressed in United States Dollars

1. Nature of Operations and Going Concern (continued)

During the year ended December 31, 2021, the Company incurred a net loss of \$3,298,022 (2020 - \$4,421,654) from continuing operations and net income of \$nil (2020 - \$3,316) from discontinued operations. As of December 31, 2021, the Company's accumulated deficit was \$25,644,681 (2020 - \$22,346,659). As at December 31, 2021, the Company had a working capital surplus of \$297,895 (2020 - working capital deficiency of \$1,778,284). In addition, during the year ended December 31, 2021, the Company had negative cash flows from operations of \$2,120,899 (2020 - \$2,198,743). These aforementioned conditions have resulted in material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and to meet its obligations will be dependent upon successful sales of product and generating positive cash flows from operations as well as obtaining suitable financing. These accompanying consolidated financial statements do not reflect any adjustment that might result from the outcome of this uncertainty. If the going concern assumption is not used, then the adjustments required to report the Company's assets and liabilities at liquidation values could be material to these consolidated financial statements.

2. Acquisition and Divestiture of Red Ace, LLC

On September 9, 2019, the Company, through Bhang, acquired all of the membership units of Red Ace, LLC ("Red Ace"), an organic beverage company. Under the terms of the purchase agreement, the former Red Ace, LLC membership unit holders received an aggregate of 4,743,074 multiple voting shares of the Company ("Bhang Shares") at a deemed fair value of \$1,414,756.

According to the agreement, a portion of the Bhang Shares were placed in escrow and were to be released pursuant to a three-year escrow schedule upon verification of certain revenue benchmarks at the end of each year. Any Bhang Shares remaining in escrow following the three-year escrow period will be returned to the Company for cancellation. During the year ended December 31, 2020, all shares that were placed in escrow were returned to the Company in connection with its divestiture of Red Ace as noted below.

For accounting purposes, the Company was identified as the acquirer and Red Ace the acquired company, and this transaction has been accounted for as a business combination. As such, Red Ace's balances are accounted for at the fair value, with the balance of the purchase price in excess of the fair value of the acquired assets and liabilities of Red Ace accounted for as goodwill. Red Ace's historical share capital and retained earnings have been eliminated.

During the year ended December 31, 2016, Red Ace issued a note payable in the amount of \$160,000. The note was non-interest bearing and repayable on or before October 22, 2016. During the year ended December 31, 2020, the Company repaid \$10,000 of the outstanding balance. During the year ended December 31, 2020, the Company disposed of its interest in Red Ace with the outstanding balance of the note payable of \$150,000 included in the net liabilities of Red Ace assumed by the purchaser.

Bhang Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
Expressed in United States Dollars

2. Acquisition and Divestiture of Red Ace, LLC (continued)

During the year ended December 31, 2020, the Company disposed of its entire interest in Red Ace for cash proceeds of \$5,000. In addition, the Company and a former owner (the "Former Owner") of Red Ace entered into a settlement agreement and mutual release, pursuant to which the Former Owner transferred back to the Company, 2,379.122 MVS that were acquired by the Former Owner at the time of the original acquisition of Red Ace by the Company. The Company realized a gain on the disposition of Red Ace which was calculated as follows:

Cash proceeds	\$	5,000
2,379.122 MVS returned to the Company at their fair value		16,039
Net liabilities of Red Ace assumed by purchaser		145,657
Gain on disposition of Red Ace (note 32)	\$	<u>166,696</u>

3. Acquisition of CB Brands

During the year ended December 31, 2016, the Company and another party formed a joint venture ("CB Brands") based in California with the purpose of developing, manufacturing, marketing, selling and/or distribution of co-branded and newly branded cannabis flower and cannabis-infused products. As at December 31, 2019, the Company held 500,000 of the outstanding 1,000,000 membership units. On January 22, 2020, the Company acquired the remaining 500,000 membership units in exchange for 536,016 SVS of the Company with at a fair value of \$80,616.

The acquisition of CB Brands does not constitute a business combination because this entity does not meet the definition of a business under IFRS 3 – Business Combination. As a result, the purchase price was determined based on IFRS 2 – Share Based Payments, and the transaction was measured at the fair value of the identifiable net assets acquired. The previously held equity interest in CB Brands was remeasured at its acquisition-date fair value, with the difference being accounted for as part of the fair value of the equity issued.

The fair value of the 536,016 SVS transferred is calculated as follows:

Fair value of the identifiable net assets acquired	\$	155,904
Bhang's existing investment in joint venture		75,288
Fair value of 536,016 SVS	\$	<u>80,616</u>

(a) The fair value of the identifiable net assets acquired as at the acquisition date are as follows:

Current Assets		
Cash	\$	616
Accounts receivable		90,126
Inventory		65,162
Total Assets Acquired		<u>155,904</u>
Total Liabilities Acquired		-
Net Identifiable Assets Acquired	\$	<u>155,904</u>

Bhang Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
Expressed in United States Dollars

3. Acquisition of CB Brands (continued)

(b) In connection with the acquisition of the remaining 50% membership interest in CB Brands, the Company entered into a trademark license agreement pursuant to which the Company acquired a license to use intellectual property that includes trademarks and service marks of the music band professionally known as Cypress Hill, with respect to the manufacture and sale of certain cannabis-related products and cannabis-related derivatives. The license was not recognized as an intangible asset as it did not meet the recognition criteria under IAS 38 - Intangible Assets. The license has a term of three years and no up-front consideration was transferred to Cypress Hill. Pursuant to the license, Bhang is required to pay an annual royalty of 2.5% of gross sales. CB Brands did not have any sales during the years ended December 31, 2021 and 2020, and as such, the Company did not pay any royalties.

4. Other Acquisitions

During the year ended December 31, 2020, the Company acquired all of the issued and outstanding shares of Founding Fathers and all of the issued and outstanding membership units of Euro Brand. The Company acquired each interest for \$100 from its former President and CEO. Each company is the owner of, or has applied for several U.S. mark registrations. For accounting purposes, neither Founding Fathers or Euro Brands met the definition of a business pursuant to IFRS 3 and, as such, these transactions have been accounted for as asset acquisitions. Historically, the only activities of either company was applying for, and acquiring the mark registrations at the direction of Bhang, and as such, both companies did not have any other assets or liabilities at the time of acquisition with the exception of the mark registrations. The Company has expensed the \$200 paid for the companies as the intangible assets acquired did not meet the recognition criteria under IAS 38 - Intangible Assets.

5. Basis of Presentation

a) Statement of Compliance

The Company's consolidated financial statements for the years ended December 31, 2021 and 2020 have been prepared and are in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretation of the IFRS interpretations committee ("IFRIC")

These consolidated financial statements were approved by the Board of Directors for issuance on May 30, 2022.

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, options and warrants, which are measured at fair value as described herein.

Bhang Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
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5. Basis of Presentation (continued)

c) Functional and Presentation Currency

The functional currencies of the Company and its subsidiaries are as follows:

Bhang Inc.	Canadian Dollar
Bhang Canada Corp.	Canadian Dollar
2838301 Ontario Inc.	Canadian Dollar
Bhang Corporation	United States Dollar
CB Brands, LLC	United States Dollar
Founding Fathers' Hemp Company	United States Dollar
Euro Brand IP Holdings, LLC	United States Dollar

The functional currency of Red Ace was the United States Dollar.

These consolidated financial statements of the Company are presented in United States.

Transactions denominated in foreign currencies are initially recorded in the functional currency using exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using exchange rates prevailing at the end of the reporting period. All exchange gains and losses are included in the consolidated statements of loss and comprehensive loss.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company are expressed in United States dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive loss and reported as accumulated other comprehensive loss in the statement of changes in shareholders' deficiency.

d) Basis of Consolidation

The Subsidiaries are controlled by the Company, as the Company is exposed, or has rights, to variable returns from its involvement with the Subsidiaries and has the ability to affect those returns through its power over the Subsidiaries by way of its ownership of all of the issued and outstanding common shares. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date control ceases. All inter-company balances and transactions have been eliminated upon consolidation.

e) Estimation Uncertainty due to COVID-19

Since 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the federal, state, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders in Canada and the United States. Government measures imposed to limit the spread of COVID-19 impacted the Company's operations during the year ended December 31, 2021 and 2020, in that its licensees experienced reduced revenues as a result of operational limitations put on retailers which also impacted the ability to pay amounts owed to the Company which resulted in the impairment of some of the Company's receivables.

Bhang Inc.

Notes to the Consolidated Financial Statements
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5. Basis of Presentation (continued)

At this time, it is unknown the extent of the long-term impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place by Canada, the United States and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

See note 13 with respect to paycheck protection loan received and forgiven as government grant during the year ended December 31, 2021 and 2020.

6. Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise indicated.

a) Cash

Cash includes cash on hand and deposits with reputable financial institutions.

b) Inventory

Inventory is valued at the lower of cost and net realizable value. Manufactured inventory and work-in-progress includes an allocation of production overhead, which is based on normal operating capacity. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. The cost of inventory is recognized in cost of goods sold as items of inventory are sold on a first-in first-out basis.

c) Revenue

Revenue is recognized by the Company in accordance with IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). Through application of the standard, the Company recognizes revenue to depict the transfer of control of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract; and
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Bhang Inc.

Notes to the Consolidated Financial Statements
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6. Significant Accounting Policies (continued)

Revenue is recognized upon the satisfaction of the performance obligation. For product sales the Company satisfied its performance obligation and transfers control upon delivery and acceptance by the customer and in some circumstances, at that time of shipment from the Company's supplier to the customer. Under IFRS 15, revenues from the sale of product are generally recognized at a point of time when control of the goods have been transferred to the customer. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy. For sales of product to licensees whereby the Company is making purchases on behalf of the licensee without a markup, the Company offsets the revenue and the related costs of goods sold within revenue.

With respect to licensing revenue, the Company satisfies its performance obligation over the term of the underlying agreement. Under IFRS 15, licensing revenue has two components that are recognized at different times. Revenue related to minimum monthly amounts are recognized over the time of the license. The Company recognizes its performance obligations satisfied over time over the term of its respective license agreements as the responsibility of the Company towards its licensees does not change over time thus this a faithful depiction of the transfer of services. Revenue related to royalties are recognized during the period in which the underlying sales occur.

The Company will present a contract asset on the consolidated statements of financial position when the Company has satisfied its performance obligation and has recognized the associated revenue before payment is due. The contract asset represents the right to consideration in exchange for the use of items under license by the licensee. The Company will present a contract liability on the consolidated statements of financial position if the licensee has paid consideration, or if the Company has a right or consideration that is unconditional, before the use of the service under license by the licensee has occurred.

d) Cost of Goods Sold

Cost of goods sold includes the cost of ingredients, packaging and direct labor involved to produce finished products that were sold during the period, as well as associated freight and shipping costs, and inventory write-downs during the reporting period.

e) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

f) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Bhang Inc.

Notes to the Consolidated Financial Statements
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6. Significant Accounting Policies (continued)

Depreciation begins when an asset is available for use, meaning that it is in the location and condition necessary for it to be used in the manner intended by management. The estimated useful lives, residual values and method of depreciation are reviewed at each period end, with the effect of any changes in estimated useful lives and residual values accounted for on a prospective basis.

Depreciation is calculated applying the following useful lives:

Computer equipment	3 years on a straight-line basis
Office furniture and equipment	5 years on a straight-line basis
Trade equipment	5 years on a straight-line basis
Leasehold improvements	3 years on a straight-line basis

g) Financial Instruments

IFRS 9 includes guidelines on classification and measurement of financial instruments, a new expected credit/loss model for calculating impairment on financial assets and new general hedging requirements.

IFRS 9 permits entities to elect into an irrevocable option for equity instruments to report changes in fair value in other comprehensive income.

On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI"), or amortized cost.

i) Financial assets classified at fair value through profit and loss

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify the equity investment as FVOCI, or if the Company's business model for holding the investment is achieved other than by both collecting contractual cash flows and by selling the assets.

FVTPL assets are initially recorded at fair value with gains and losses on disposition and subsequent changes in fair value recorded in net loss. Directly attributable transaction costs are reported in the Company's net loss as incurred.

Bhang Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
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6. Significant Accounting Policies (continued)

ii) *Financial assets other than assets at fair value through profit and loss*

Financial assets that are managed to collect contractual cash flows consisting of principal and interest on specified dates are subsequently measured at amortized cost.

Financial assets recorded at amortized cost are measured at initial cost plus interest calculated using the effective interest rate method net of cumulative repayments and cumulative impairment losses. Subsequent to initial measurement, financial assets are measured at amortized cost using the effective interest rate method. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred substantially all the risks and rewards of the asset. The Company assessed at each reporting date whether objective evidence that a financial asset is impaired exists. For financial assets deemed to be impaired, the impairment provision is based on the expected loss.

iii) *Non-derivative financial liabilities*

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest rate method.

iv) *Derivative financial instruments - warrants and options*

A financial derivative such as warrants or options that will be settled with the Company's own equity instruments will be classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of Canadian dollars.

A financial derivative will be considered a financial liability at FVTPL if it's to acquire either a variable number of equity instruments and the options/warrants were not offered pro-rata to all existing owners of the case class of non-derivative equity instruments.

Classification and measurement of financial statements is dependent on the Company's business model for managing the financial assets and related contractual cash flows.

The Company's classification and measurement of its financial assets and financial liabilities are as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Measurement</u>
Cash	FVTPL	Fair value
Marketable securities	FVTPL	Fair value
Trade and other receivables	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Promissory notes	Amortized cost	Amortized cost
Due to shareholder	Amortized cost	Amortized cost

Bhang Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
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6. Significant Accounting Policies (continued)

h) Impairment of Financial Assets

IFRS 9 includes a three-stage expected credit loss (“ECL”) model for determining impairment of financial assets. The expected credit loss model does not require the occurrence of a triggering event before an entity recognizes credit losses. IFRS 9 requires an entity to recognize expected credit losses upon initial recognition of a financial asset and to update the quantum of expected credit losses at the end of each reporting period to reflect changes to credit risk of the financial asset. The Company has applied the simplified approach for its accounts receivable and contract assets as permitted by IFRS 9, whereby the recognition of expected losses does not require the Company to track changes in credit risk. As such, the Company will recognize a loss allowance at each reporting date based on the lifetime expected credit losses from the date of the receivable. The expected credit losses for the financial assets measured at amortized cost are presented in the consolidated statements of financial position as a deduction from the gross carrying amount of the financial asset.

i) Impairment of Long-lived Assets

Property and equipment and definite lived intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Indefinite lived Intangible assets, including goodwill, are tested for impairment annually or more frequently if warranted by a change in circumstances. For the purposes of measuring recoverable values, assets are aggregated into cash generating units (“CGUs”) based on an assessment of the lowest levels for which there are separately identifiable cash flows. The determination of individual CGUs is based on management’s judgment regarding shared infrastructure, geographical proximity and similar exposure to market risk. The recoverable value is the greater of an asset’s fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset. An impairment loss is recognized for the value by which the asset’s carrying value exceeds its recoverable value. Impairment losses are recognized in the consolidated statements of loss and comprehensive loss.

Impairment losses may be reversed in a subsequent period where impairment on a long-lived asset has reduced or no longer exists. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no initial impairment loss been recognized. A reversal of impairment loss is recognized in the consolidated statements of loss and comprehensive loss.

j) Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Any goodwill recognized on an acquisition is allocated to the CGU or CGUs that are expected to benefit from the synergies of the combination.

Goodwill and intangible assets with indefinite lives are not subject to amortization and are tested for impairment annually, or more frequently if events or conditions exist that indicate they may be impaired.

Bhang Inc.

Notes to the Consolidated Financial Statements
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6. Significant Accounting Policies (continued)

An impairment loss is recognized for goodwill and intangible assets with indefinite lives for the amount by which the carrying value of a CGU or group of CGU's, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value-in-use. Impairment losses are first allocated to the carrying value of goodwill and intangible assets with indefinite lives, with any excess allocated to the carrying amount of assets in the CGU or group of CGUs. Any impairment loss is recognized in net loss for the period in which the impairment is identified. Impairment losses on goodwill are not reversed in subsequent periods.

k) Cost of Private Placement Financing

Costs incurred with respect to raising capital through private placements are charged against the equity proceeds raised. Costs incurred with respect to the issuance of convertible debt are recognized against the liability and equity components of the convertible debt. Issuance costs allocated to the liability component are amortized over the term of the convertible debt and accrete to the principal amount at maturity or at the expected timing of principal repayment, whichever is earlier. Costs related to the issuance of share capital and convertible debt, and incurred prior to issuance, are recorded as deferred issuance costs and subsequently netted against proceeds when they are received. The accretion and the interest paid are expensed on the consolidated statements of loss and comprehensive loss.

l) Share-Based Compensation

Share-Based Payment Transactions

Transactions with non-employees that are settled in equity instruments of the Company are measured at the fair value of the services rendered. In situations where the fair value of the goods or services received by the Company as consideration cannot be reliably measured, transactions are measured at fair value of the equity instruments granted. The fair value of the share-based payments is recognized together with a corresponding increase in equity over a period that services are provided or goods are received.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options issued pursuant to its Stock Option Plan described in note 18. This pricing model incorporates highly subjective assumptions, including volatility and expected time until exercise, which can affect the fair value of the stock options. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in the statement of loss and comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

No expense is recognized for awards that do not ultimately vest with the exception of cancelled options for which the Company applies accelerated vesting.

Bhang Inc.

Notes to the Consolidated Financial Statements
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6. Significant Accounting Policies (continued)

m) Loss Per Share

Loss per share is computed by dividing the loss for the year by the weighted average number of Subordinate Voting Shares and Multiple Voting Shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of Subordinate Voting Shares outstanding is increased to include potentially issuable Subordinate Voting Shares from the assumed exercise of share purchase options and warrants, if dilutive. The Company's outstanding stock options, warrants, brokers' warrants and shares to be issued, were not included in the calculation of diluted loss per share for the years ended December 31, 2021 and 2020, as they are anti-dilutive.

n) Warrants

The Company uses the Black-Scholes option pricing model to calculate the value of warrants issued as part of the Company's public and/or private placements. The Black-Scholes Model requires six key inputs to determine a value for a warrant: risk-free interest rate, exercise price, market price at date of issuance, expected dividend yield, expected life, and expected volatility. Certain of the inputs are estimates, which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. Proceeds from unit placements, net of issuance costs, are allocated between common shares and warrants issued according to their relative fair value.

o) Income Taxes

Current tax assets and/ or liabilities comprise those claims from, or obligations to, government authorities relating to the current or prior reporting periods that are unpaid as of the reporting date. Current taxes payable on profit for income tax purposes differs from net income or loss in the consolidated financial statements. The calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the statement of financial position and their corresponding tax value, using the substantively enacted tax rates expected to apply when these temporary differences are reversed. Deferred income tax assets are recorded to recognize tax

benefits only to the extent that, based on available evidence, it is probable that they will be realized. Income tax expense is recognized in the consolidated statements of loss and comprehensive loss except to the extent that it relates to a business combination, or items recognized directly in equity.

Deferred tax liabilities are recognized for all temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of 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.

Bhang Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
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6. Significant Accounting Policies (continued)

p) Investment in Joint Venture

Joint ventures are all entities over which the Company has joint control. The Company's investments in the joint ventures is accounted for using the equity method and is initially recognized at cost.

The Company assesses annually where there is any objective evidence that its interest in its joint venture impaired. If impaired, the carrying value of the Company's share of the underlying assets of the joint venture is written down to its estimated recoverable amount (being the higher of fair value less costs of the disposal or the value in use) and charged to the consolidated loss and comprehensive loss. If the financial statements of an associate are prepared on a date different from that used by the Company, adjustments are made for the effects of significant transactions or events that occur between the date the financial statements of an associate are prepared and the date of the Company's consolidated financial statements.

q) Leases

As a lessee, the Company recognizes a lease obligation and a right-of-use asset in the consolidated statements of financial position on a present-value basis at the date when the leased asset is available for use. Each lease payment is apportioned between a finance charge and a reduction of the lease obligation. Finance charges are recognized in finance cost in the consolidated statements of loss and comprehensive loss. The right of-use asset is depreciated over the shorter of its estimated useful life and the lease term on a straight-line basis.

Lease obligations are initially measured at the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are discounted using the interest rate implicit in the lease, or if this rate cannot be determined, the Company's incremental borrowing rate. Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of the lease obligation;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- rehabilitation costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of loss and comprehensive loss. Short-term leases are leases with a lease term of 12 months or less.

Bhang Inc.

Notes to the Consolidated Financial Statements
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6. Significant Accounting Policies (continued)

r) Business Combinations

The Company applies the acquisition method in accounting for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

For acquisitions that do not meet the definition of a business under IFRS 3- Business Combination, equity settled share-based payments are accounted for in accordance with IFRS 2 – share based payments.

s) Discontinued Operations

A discontinued operation is a component of the Company's business, with operations and cash flows that are distinguishable from those of the rest of the Company, and which represents a separate major line of business or geographical area of operations, and which is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively for resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the major line of business or geographical operation meets the criteria to be classified as assets held for sale or distribution. When an operation is classified as a discontinued operation, IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, requires that the comparative statements of loss and comprehensive loss are re-presented as if the operation was discontinued from the start of the comparative year. As a result, the Company's discontinued operations are excluded from the loss from continuing operations and are presented as an amount, net of tax, as loss from discontinued operations in the consolidated statements of loss and comprehensive loss. Furthermore, the Company has made the accounting policy choice to present net cash flows related to its discontinued operations in the notes to the consolidated financial statements.

t) Government Grants

Government grants are not recognized in income until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grant will be received. Government grants are recognized in the statements of loss and comprehensive loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates. A forgivable loan from the government is treated as a government grant as long as there is reasonable assurance that the Company will meet the terms for forgiveness of the loan. The amount of the grant portion which is unexpended is recognized as a deferred government grant to be recognized in the statements of loss and comprehensive loss on a systematic basis over the term of the loan.

Bhang Inc.

Notes to the Consolidated Financial Statements
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6. Significant Accounting Policies (continued)

The Company recognizes government subsidies when there is reasonable assurance that it will comply with the conditions required to qualify for the subsidy and that the condition of the subsidy is also reasonably assured. Government subsidies received are recognized on the consolidated statements of loss and comprehensive loss as other income.

u) Future Accounting Pronouncements

IAS 16 - Property, Plant and Equipment (amendments)

The IASB issued an amendment to IAS 16, Property, Plant and Equipment, to prohibit the deducting from property, plant and equipment amounts received from selling items produced while preparing an

asset for its intended use. Instead, sales proceeds and its related costs must be recognized in profit or loss. The amendment will require companies to distinguish between costs associated with producing and selling items before the item of property, plant and equipment is available for use and costs associated with making the item of property, plant and equipment available for its intended use. The amendment is effective for annual periods beginning on or after January 1, 2022, with earlier application permitted. The Company will evaluate the impact, if any, on its consolidated financial statements prior to the effective date of January 1, 2022.

IAS 1 - Presentation of Financial Statements (amendments)

The IASB issued an amendment to IAS 1, Presentation of Financial Statements, to clarify one of the requirements under the standard for classifying a liability as non-current in nature, specifically the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendment includes:

- Specifying that an entity's right to defer settlement must exist at the end of the reporting period;
- Clarifying that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;
- Clarifying how lending conditions affect classification; and
- Clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

The Company will evaluate the impact, if any, on its consolidated financial statements prior to the effective date of January 1, 2023.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets (amendments)

The IASB issued amendments to update IAS 37 to specify that, in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

Bhang Inc.

Notes to the Consolidated Financial Statements
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6. Significant Accounting Policies (continued)

The Company will evaluate the impact, if any, on its consolidated financial statements prior to the effective date of January 1, 2022.

7. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Expected Credit Losses

The calculation of the Company's expected credit losses on financial instruments requires management to make a number of estimates including the probability of possible outcomes with regards to credit losses, the discount rate to use for the time value of money, changes to the financial instrument's credit risk as well as other future-oriented factors.

Estimated Useful Lives, Depreciation of Property, Plant and Equipment and Depreciation

Depreciation of property, plant and equipment is dependent upon estimates of useful lives that are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent on estimates of recoverable amounts and include the consideration of economic factors and market conditions, as well as the useful lives of assets.

Deferred Tax Assets

Deferred tax assets, including those arising from tax loss carry forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Bhang Inc.

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7. Significant Accounting Judgments, Estimates and Assumptions (continued)

Fair Value of Financial Instruments

The individual fair values attributed to the different components of a financing transaction, notably, convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and derive estimates. Significant judgment is also used when attributing fair values to each component of a transaction upon initial recognition, measuring fair values for certain instruments on a recurring basis and disclosing the fair values of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of instruments that are not quoted or observable in an active market.

Accounts Payable and Accrued Liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle this obligation are both probable and able to be reliably measured.

Share-Based Compensation

The Company uses the Black-Scholes option-pricing model to determine the fair value of equity-based grants. The Black-Scholes option pricing model requires management to make certain assumptions and estimates such as the expected life of the instrument, volatility of the Company's future share price, risk-free rates, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Classification of Convertible Debt as Financial Liabilities and Equity

Management has concluded that, based on the terms of the convertible promissory notes, the host debt component shall be classified as a financial liability and measured at the present value of the discounted future cash flows at the market rate of similar instruments that do not include a conversion feature. The residual balance, which represents the conversion feature, is classified as a separate component of equity.

Variable Consideration in Revenue from Contracts with Customers

The determination of the amount of variable consideration to recognize is dependent on management's estimate of the most likely amount to which the Company will be entitled and the probability of a significant reversal in that amount. These determinations require management to make estimates based on historical amounts received to estimate future returns and pricing adjustments.

Bhang Inc.

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7. Significant Accounting Judgments, Estimates and Assumptions (continued)

Business Combinations

In a business combination, the identifiable assets, liabilities and contingent liabilities of the acquired Company are recorded at their fair values. The determination of the fair value of these assets and liabilities require significant estimates. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in the acquisition. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value. For any intangible assets identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Determination of Cash-Generating Units

Goodwill, property and equipment and intangible assets are allocated to the CGU that represents the lowest level within the Company at which management monitors goodwill, property and equipment or indefinite life intangibles, and not at a level higher than an operating segment. The Company considers each subsidiary to be a CGU. For the purpose of impairment testing for goodwill, the Company allocates the goodwill to the group of CGUs expected to benefit from the synergies of the business combination. For the purpose of impairment testing for intangible assets with indefinite lives, the Company compares the lowest level CGU's carrying amount with its recoverable amount.

Impairment of Long-lived Assets

When determining the recoverable amount of the CGU or CGUs to which goodwill is allocated, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the estimated recoverable amount.

Going Concern

Management has assessed and concluded that the going concern assumption is appropriate for a period of at least twelve months following the end of the reporting period. Management applied significant judgment in arriving at this conclusion including:

- i. The amount of revenue to be generated from existing and new licenses to provide sufficient cash flow to fund operations and other committed expenditures;
- ii. A reorganization of the Company's products offered for sale to move away from certain goods that have become commoditized;
- iii. The ability to convert existing debt into equity;
- iv. The ability to enter into new financing agreements; and
- v. The streamlining of general and administrative expenses to manage cash flows

Bhang Inc.

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7. Significant Accounting Judgments, Estimates and Assumptions (continued)

Contingencies

Management's determination of the existence of contingencies requires the use of judgment. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also applies judgment to assess the likelihood of the occurrence of one or more future events. When contingencies exist, management estimates the related financial impact to the Company based on the possible outcomes of one or more future events.

Asset Acquisition versus Business Combination

Management's judgment is required to determine whether an acquisition of another company or a group of assets from another company meet the definition of a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. If management determines that the acquired company or assets meets the definition of a business, the transaction will be accounted for as a business combination. If management determines that the acquisition does not meet the definition of a business, the transaction will be accounted for as an asset acquisition.

8. Inventory

As of December 31, 2021, and 2020, the Company's inventory included the following:

	<u>2021</u>	<u>2020</u>
Finished goods for resale online	\$ 69,211	\$ 329,889
Raw materials	115,717	103,980
Obsolescence provision	-	(229,133)
	<u>\$ 184,928</u>	<u>\$ 204,736</u>

The cost of inventories, net of a credit memo issued by a vendor, included as an expense and included in cost of goods sold, for the year ended December 31, 2021 was \$295,859 (2020 - \$671,865) which includes a write-off of inventory in the amount of \$25,687 (2020 - \$391,662).

Bhang Inc.

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9. Investment in Joint Ventures

- (a) During the year ended December 31, 2016, the Company and another party formed a joint venture based in California with the purpose of developing, manufacturing, marketing, selling and/or distribution of co-branded and newly branded cannabis flower and cannabis-infused products. As at December 31, 2021 and 2020, the Company held 1,000,000 of the outstanding 1,000,000 membership units of CB Brand. During the year ended December 31, 2020, the Company acquired the remaining 500,000 membership units (see note 3). Movement in the Company's capital account for the years ended December 31, 2021 and 2020 is as follows:

Capital - January 1, 2020	\$	75,288
Capital contributions (return of capital)		-
Share of net loss		-
Derecognition of investment in joint venture		(75,288)
Capital – December 31, 2020 and 2021	\$	<u><u>-</u></u>

CB Brands was inactive during the years ended December 31, 2021 and 2020.

- b) On April 17, 2018, Bhang entered into a joint venture agreement with a Canadian corporation (the "other party") to carry out the production, marketing, distribution and sale of all Bhang-branded "Marijuana" products on an exclusive basis in Canada and a non-exclusive right to export Bhang-branded "Marijuana" products world-wide. The Board of Directors of the joint venture consists of two nominees of each party. Further, all spending programs require a proposal to the Board and unanimous approval of the Board. Pursuant to the joint venture agreement, each party is to contribute \$100,000 to the joint venture company. During the year ended December 31, 2020, the contribution of \$100,000 was made by the Company.

The Company has concerns over the management of the joint venture which includes, but is not limited to, non-approved expenses for a total amount of \$785,330 incurred on behalf of the joint venture, that occurred during the year ended December 31, 2019. As a result, the Company has not recorded any share of loss relating to the disputed amount of \$785,330. During the period from January 1, 2020 to July 21, 2020 (the date of the settlement agreement - see below), the joint venture had net income of \$277,678, of which the Company has not recorded any share of income.

Bhang Inc.

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9. Investment in Joint Ventures (continued)

On April 17, 2018, Bhang also entered into a subscription agreement with the other party pursuant to which Bhang would issue 5,000 common shares from treasury for proceeds of \$1,000,000. As the other party was a publicly listed company, it agreed to take possession of the shares after meeting certain regulatory requirements. On June 14, 2018, the Company signed a letter of agreement stating that a loan of \$1,000,000 be made by the other party to the joint venture company. The letter provides that the \$1,000,000 loan was to be used by the joint venture company to prepay for expenses to be carried out or supplied by Bhang. This letter does not mention, nor does it confirm any re-characterization of the \$1,000,000 described in note 17. The terms of the letter provide for conversion of the loan into the same number of common shares of Bhang as contemplated in the original subscription agreement for a period of six months from the date of the Transaction. During the year ended December 31, 2019, the Company received notice from the other party that the payment of \$1,000,000 described in note 17 represented an advance payment on royalties for Bhang from the joint venture company. The Company disagrees with this position and maintains the intent of the transaction was always the exchange of shares of Bhang for the payment of \$1,000,000 once the other party was able to meet its regulatory requirements to hold such shares.

During the year ended December 31, 2020, the Company and the other party executed a settlement agreement (the "Settlement Agreement") with respect to the subscription agreement and the joint venture. Pursuant to the Settlement Agreement, the existing joint venture agreement, the license agreement from the Company to the joint venture, and any other agreements between or among the parties relating to the joint venture were terminated, and the Company disposed of its shares in the joint venture company to the other party for nominal consideration. The Company has recorded a loss of \$100,000 upon relinquishment of its interest in the joint venture.

The parties also entered into a new license agreement whereby the licensee has the exclusive right to manufacture and distribute selected Bhang THC-infused chocolate products in Canada and the non-exclusive right to export those products internationally until December 31, 2030 unless either party is in breach or the license agreement is terminated pursuant to the terms of the license agreement. Pursuant to the new license agreement, the \$1,000,000 previously paid to the Company is to be recorded as a non-refundable start-up fee. The amount will be recorded as a contract liability and recognized as license revenue on a straight-line basis over the term of the license.

10. Marketable Securities

During the year ended December 31, 2020, the Company entered into a termination agreement with a licensee pursuant to which, the Company received common stock of the other Company with a fair value of \$530,592. During the year ended December 31, 2020, the Company disposed of these shares for proceeds of \$426,584 resulting in a realized loss on disposition of \$104,008.

During the year ended December 31, 2020, the Company acquired 3,149,607 common shares of Plant-Based Investment Corp. ("PBIC"), formerly Cannabis Growth Opportunities Corporation, in exchange for 14,285,714 SVS of the Company (the "Share Swap"). The shares issued by the Company are measured by reference to the fair value of the PBIC shares and was estimated as \$967,541, which included a discount for lack of marketability of 14.68% related to the statutory four month plus one day trading restriction on the shares acquired. As part of the Share Swap, each of the investor and Company have signed a voting and resale agreement providing that each party will be required to vote the shares acquired under the Share Swap as recommended by the other party and will be restricted from trading the shares for a period of 18 months.

Bhang Inc.

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10. Marketable Securities (continued)

The movement in the carrying value of the Company's investment during the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Balance - beginning of year	\$ 989,509	\$ -
Shares acquired during the year	-	1,498,133
Shares Sold during the year	-	(530,592)
Unrealized loss during the year	(389,399)	(21,484)
Effects of foreign exchange	8,546	43,452
Balance - end of year	<u>\$ 608,656</u>	<u>\$ 989,509</u>

Bhang Inc.

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11. Property and Equipment

	Computer Equipment	Office Furniture and Equipment	Trade Equipment	Leasehold Improvements	Total
Cost					
Balance - December 31, 2019	\$ 9,637	\$ 34,677	\$ 471,821	\$ 5,174	\$ 521,309
Additions	-	2,658	144,915	-	147,573
Disposals	-	-	(239,812)	-	(239,812)
Impaired	-	-	(137,340)	-	(137,340)
Balance - December 31, 2020	9,637	37,335	239,584	5,174	291,730
Additions	6,236	-	31,475	-	37,711
Disposals	-	-	(67,684)	-	(67,684)
Impaired	-	(37,335)	-	-	(37,335)
Balance - December 31, 2021	\$ 15,873	\$ -	\$ 203,375	\$ 5,174	\$ 224,422
Accumulated Depreciation					
Balance - December 31, 2019	\$ 4,033	\$ 8,618	\$ 151,212	\$ 5,174	\$ 169,037
Depreciation for the year	3,212	6,714	50,324	-	60,250
Disposals	-	-	(26,347)	-	(26,347)
Impaired	-	-	(63,877)	-	(63,877)
Balance - December 31, 2020	7,245	15,332	111,312	5,174	139,063
Depreciation for the year	3,213	6,983	34,798	-	44,994
Disposals	-	-	(16,628)	-	(16,628)
Impaired	-	(22,315)	-	-	(22,315)
Balance - December 31, 2021	\$ 10,458	\$ -	\$ 129,482	\$ 5,174	\$ 145,114
Net Book Value					
As at December 31, 2020	\$ 2,392	\$ 22,003	\$ 128,272	\$ -	\$ 152,667
As at December 31, 2021	\$ 5,415	\$ -	\$ 73,893	\$ -	\$ 79,308

During the year ended December 31, 2021, the Company received \$nil (2020 - \$59,594) of trade equipment in connection with the termination of a license agreement (see note 20).

Bhang Inc.

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11. Property and Equipment (continued)

During the year ended December 31, 2021, the Company disposed its molds that were sold to licensee and recorded the net proceed of \$15,229. During the year ended December 31, 2020, the Company disposed of a piece of equipment in exchange for aggregate consideration of \$270,000, that included a credit of \$100,000 that was owed to the other party pursuant to a consulting contract, cash of \$100,000 that was paid directly to one of the Company's joint ventures on behalf of the Company (see note 9(b) and a series of 12 monthly cash payments of \$5,000. At the time of the disposition, the equipment had a net book value of \$213,465 (historical cost of \$239,812, less accumulated depreciation of \$26,347) resulting in a gain on disposition of \$56,535.

During the year ended December 31, 2021, the Company recorded an impairment loss in amount of \$15,020 (2020 - \$73,463) on its property and equipment. The Company recorded impairment during the year ended December 31, 2021 on office furniture and equipment due to shut down of the office and operations were fully remote due to COVID-19. During the year ended December 31, 2020, the Company determined that two of its pieces of trade equipment were impaired as a result of the inability to use them in the Company's business and the ability to sell these assets were unknown.

12. Right-of-Use Assets

The Company's right-of-use assets are comprised of the following:

	Land and Buildings
Balance - December 31, 2019	29,289
Depreciation for the year	(29,289)
Balance - December 31, 2020	\$ -

During the year ended December 31, 2020, the Company entered into a settlement agreement with the landlord for the office premises leases and disposed of its interest in Red Ace. There were no right-of-use assets recognized during the year ended December 31, 2021.

13. Promissory Note

During the year ended December 31, 2020, the Company received \$150,567 in connection with the Paycheck Protection Program. The advance was structured as a promissory note but was eligible for forgiveness as a government grant if the Company complied with certain conditions. The promissory note was to mature on May 1, 2022, carried interest at a rate of 1% per annum and was repayable by 18 monthly payments of \$8,475 with the first payment due December 1, 2020. During the year ended December 31, 2020, the Company and the lender entered into a change in terms agreement pursuant to which the repayable principal balance of the promissory note was reduced to \$8,000. Pursuant to the change in terms agreement, the interest rate remains at 1% per annum and the promissory note is repayable by 18 monthly payments of \$450 with the first payment due December 1, 2020.

In connection with the change in terms agreement, the Company recorded forgiveness of \$142,567 on outstanding principal and accrued interest, and this amount has been included as government assistance in the consolidated statement of loss and comprehensive loss. Total payments towards this promissory note amounted to \$1,350.

During the year ended December 31, 2021, the Company got confirmation from the lender of loan forgiveness for the entire amount of principal and interest. The lender returned all payments of \$1,350 that were made by the Company.

Bhang Inc.

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13. Promissory Note (continued)

During the year ended December 31, 2021, the Company received an additional \$81,886 from the Paycheck Protection Program, which not required to be re-paid.

The movement in the carrying value of the promissory note during the years ended December 31, 2021 and 2020 is as follows:

Balance - January 1, 2020	\$	-
Borrowed during the year		150,567
Less: loan forgiveness		(142,567)
		<hr/>
Principal balance - December 31, 2020	\$	8,000
Additions		81,886
Less: loan forgiveness		(89,886)
		<hr/>
Balance - December 31, 2021	\$	-

14. Lease Liabilities

The Company had entered into two leases for office space. To calculate the present value of the future lease payments, the Company has used a discount rate of 13% which represents the Company's current incremental borrowing rate.

Changes to the Company's lease liabilities for the year ended December 31, 2020 are as follows:

	Land and Buildings
	<hr/>
Balance December 31, 2019	45,842
Interest expense	659
Lease payments	(32,084)
Less: waived in connection with settlement agreement	(14,417)
	<hr/>
Balance December 31, 2020	\$ -

During the year ended December 31, 2020, the Company entered into a settlement agreement with the landlord for the office premises leases and disposed of its interest in Red Ace.

The Company did not enter into any long-term leases or have any outstanding lease liabilities during the year ended December 31, 2021.

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15. Convertible Promissory Notes Payable

During the year ended December 31, 2019, Bhang issued a promissory note to PBIC in the principal amount of CAD\$300,000 (\$224,200) bearing interest at a rate of 8% per annum. The outstanding principal and interest are payable April 12, 2020. During the year ended December 31, 2019, Bhang issued a second promissory note to this shareholder in the principal amount of CAD\$300,000 (\$222,074) bearing interest at a rate of 8% per annum. The outstanding principal and interest were payable May 14, 2020.

Upon close of the Transaction, these promissory notes were replaced with new promissory notes issued by the Company (the "Exchanged Notes") bearing the same interest rate and maturity dates, that were convertible into common shares of the Company, at the option of the holder, at a price of CAD\$0.50 per share. However, the Company shall have the option to accelerate the conversion of the Exchanged Notes in the event that the volume weighted average price of the listed shares of the Company on the CSE is equal to or greater than CAD\$1.00 per share over a period of ten consecutive trading days.

The Exchanged Notes are considered to be compound instruments comprising a liability and a conversion feature. As a result, the liability and equity components have been presented separately. The initial carrying value of the liability was calculated by discounting the future payments of interest and principal using a market interest rate of 20%. Using the residual method, the carrying value of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability, and will be recorded in a separate account within shareholders' deficiency on the consolidated statement of financial position.

On April 21, 2020, the Company and the lender entered into a forbearance agreement (the "Forbearance Agreement") to extend the maturity dates of the convertible promissory notes payable until May 31, 2020. The convertible promissory notes payable were initially set to mature on April 12, 2020 (the "April Note") and May 14, 2020 (the "May Note"). As an accommodation to the Company, the lender extended the April Note until April 21, 2020. On April 21, 2020 and pursuant to the Forbearance Agreement, the Lender extended the maturity dates of the Notes until May 31, 2020 in exchange for: (i) the Company agreeing to pay up to CAD\$20,000 of the Lender's legal fees and disbursements with respect to the Notes; (ii) the Company granting to the Lender a general security interest over all property, assets and rights of the Company, securing all amounts owing under the Notes and any additional future advances; (iii) Bhang Corporation guaranteeing the indebtedness of the Company to the Lender; and (iv) the Company appointing a nominee of the Lender to the Company and its subsidiaries' board of directors.

Transactions related to the Exchanged Notes during the year ended December 31, 2020, include the following:

	<u>Carrying amount</u>
Balance - December 31, 2019	\$ 465,287
Interest accretion	26,884
Effects of foreign exchange	(37,827)
Conversion to SVS	(454,344)
Balance - December 31, 2020	<u>\$ -</u>

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15. Convertible Promissory Notes Payable (continued)

On July 17, 2020, entered into a settlement agreement (the "Settlement Agreement"), pursuant to which the Company and the lender settled the two convertible promissory notes by the Company issuing to the lender a total of 6,666,667 SVS and 6,666,667 warrants (see note 18(b)(iii)), the result of which was a loss on the settlement of debt of \$295,541. Furthermore, the lender has settled and released all other rights and remedies available under its Forbearance Agreement and prior financings in exchange for 12,809,524 SVS, and 5,261,905 warrants (see note 18(b)(ii)), with an aggregate fair value of \$1,380,402. The total loss on settlement of debt during the year ended December 31, 2020 included in the statement of loss and comprehensive loss pursuant to the settlement agreement is \$1,692,397.

There were no outstanding convertible promissory notes payable or any transactions in relation to the Exchanged Notes during the year ended December 31, 2021.

16. Due to Shareholder

During the year ended December 31, 2020, the Company and a shareholder entered into an operating facility pursuant to which the shareholder will advance up to CAD\$1,500,000 (the "Operating Facility") in minimum tranches of CAD\$50,000 ("Advances"). The advances shall bear interest at a rate of 8% per annum with interest payable monthly in arrears on the first business day of each month. At the option of the lender, any outstanding interest may be converted into SVS of the Company at a price of CAD\$0.15 per share. All outstanding Advances are repayable on demand at any time and all outstanding amounts shall be permanently repaid and the Operating Facility cancelled after 36 months from the date of the agreement. The Company may repay the Operating Facility at any time and the lender may be entitled to elect to receive SVS of the Company at a price of CAD\$0.15 per share, in place and instead of repayment of the amount outstanding under the Operating Facility. The conversion feature was accounted for as equity component based on the fact that it did not breach the fixed for fixed criteria. As such, the debt host was valued first and the residual value was allocated to the equity component. The debt host fair value being equivalent to face value, a value of \$nil was allocated to the equity component due to the fact that the advances are due on demand. The Operating Facility is secured by a charge on the current and future assets, undertakings and properties of the Company of every nature and kind whatsoever situate, including but not limited to any and all registerable and/or unregistrable intellectual property rights in any and all jurisdictions owned, licensed, and/or used by the Company and all proceeds thereof, pursuant to and including general security agreements from the Company.

As at December 31, 2020, the Company had received advances of \$1,178,134 (CAD\$1,500,000), and had accrued interest payable of \$13,405 (CAD\$17,067).

During the year ended December 31, 2021, the Company settled the outstanding principal and accrued interest of \$1,214,088 (CAD\$1,538,005) by issuing 23,661,623 SVS of the Company pursuant to a debt settlement agreement. Following completion of the debt settlement agreement, the Company as access to the operating facility of up to CAD\$1,500,000. In addition, the Company and the shareholder amended the terms of the operating facility such that the maturity date of all future amounts owing under the facility shall be repaid by July 17, 2023 and the lender shall not be entitled to demand repayment of the operating facility unless and until the occurrence of an Event of Default which is continuing has not been cured.

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16. Due to Shareholder (continued)

As at December 31, 2021, the Company had received advances of \$141,836 (CAD\$179,820) from a shareholder and has accrued interest payable of \$2,356 (CAD\$2,986).

The movement in the carrying value of the amount due to shareholder note during the years ended December 31, 2021 and 2020 is as follows:

Balance - January 1, 2020	\$	-
Borrowed during the year		1,132,088
Add: accrued interest		13,405
Effects of foreign exchange		46,046
		<hr/>
Balance - December 31, 2020		1,191,539
Add: accrued interest		16,531
Effects of foreign exchange		6,018
Less: converted to SVS		(1,214,088)
Add: Advances in F21		141,836
Add: Interest accrued on advance		2,356
		<hr/>
Balance - December 31, 2021	\$	<u>144,192</u>

17. Share Capital

The Company is authorized to issue an unlimited number of Subordinate Voting Shares ("SVS") without nominal or par value and an unlimited number of Multiple Voting Shares ("MVS") without nominal or par value. Bhang is authorized to issue up to 200,000 common shares with a par value of \$0.01 per share.

During the year ended December 31, 2021, Company had the following share capital transactions:

- i) The Company issued 27,240,192 SVS through a non-brokered private placement in March 2021 for aggregate gross proceeds of \$1,408,416 (CAD\$1,770,613). In connection with this private placement, the Company paid finder's fees in the amount of \$13,255 (CAD\$16,586);
- ii) The Company issued 23,661,623 SVS pursuant to a debt settlement transaction with an existing shareholder of the Company (note 16);
- iii) The Company granted 7,362,500 RSUs of the Company to officers, directors and consultants of the Company. Of the issued RSUs, 2,062,500 vested during the year ended December 31, 2021 while the remaining will vest during the year ending December 31, 2022. The fair-value of the RSUs amounted to \$464,584, of which \$130,147 was recorded as share-based compensation expense during the year ended December 31, 2021;
- iv) The Company issued 20,013,876 SVS as a result of the conversion of 20,013.876 MVS;

17. Share Capital (continued)

- v) The Company issued 22,147,400 units through a non-brokered private placement in December

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2021 for gross proceeds of \$948,296 (CAD\$1,218,107). Each of these units were comprised of 22,147,400 SVS and 11,073,700 share purchase warrants. The share purchase warrants were valued using the residual method which resulted in the value allocated to share-purchase warrants to be \$nil. In connection with this private placement, the Company paid finder's fees of CAD\$33,633 (\$26,183) and issued 454,800 finder warrants at an exercise price \$0.10;

- vi) The Company issued 3,194,000 SVS at a price of CAD\$0.08 to the CEO of the Company as a bonus which was recorded under wages and salaries and 1,500,000 SVS to Green Globe Holdings, LLC at a price of CAD\$0.08 in accordance with a marketing and sales agreement;
- vii) The Company issued 12,000,000 share purchase warrants to a service provider at exercise price of \$0.115 and 35,000 warrants to service provider at exercise price of \$0.15 per SVS;
- viii) During the year ended December 31, 2020, the Company granted 2,750,000 RSUs to certain officers, directors and consultants of the Company of which 500,000 RSUs vested during the year ended December 31, 2021 with the remaining vesting in fiscal 2022 and 2023. The Company recorded share-based compensation in the amount of \$27,842 during the year ended December 31, 2021 (2020 - \$7,479);
- ix) The Company issued 430,000 restricted shares issued during year ended December 31, 2020. Of these issued restricted shares, the Company cancelled 170,000 restricted shares during the year ended December 31, 2021 that were issued to former employees that had yet to vest. During the year ended December 31, 2021, 83,333 restricted shares vested. The remaining 33,334 restricted shares are yet to vest in F22.

During the year ended December 31, 2020, the following share transactions occurred:

- i) The Company issued 536,016 SVS of the Company with a fair value of \$80,616 to acquire the remaining 500,000 membership units of CB Brands as discussed in note 3.
- ii) The Company and an existing shareholder reached an agreement to invest up to CAD\$1,300,000 in a non-brokered private placement offering of units with each unit comprising of one SVS in the capital of the Company and one share purchase warrant. Each warrant is exercisable into one SVS at a price equal to a 25% premium to the unit price for a period of 24 months. The Company has the right to accelerate the expiry of the warrants to thirty (30) days following written notice to the holder if the SVS close at or above CAD\$0.25 per share for a period of ten (10) consecutive trading days on the Canadian Securities Exchange.

The first tranche of the offering for gross proceeds of approximately \$500,000 CAD was completed on February 10, 2020 with 3,571,428 Units being issued by the Company at a price of \$0.14 CAD per Unit. Of the proceeds of \$376,223, \$106,148 was allocated to warrants (see note 18). The Company incurred issuance costs of \$19,767 in connection with this financing. During the year ended December 31, 2020, the Company and the shareholder entered into a settlement agreement pursuant to which the parties agreed that the shareholder was no longer required to participate in the second and third tranches (see also note 15).

17. Share Capital (continued)

In addition, the shareholder and the Company have entered into subscription agreements to

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exchange approximately \$2,000,000 CAD worth of each other's shares (the "Share Swap"). Under the terms of the Share-Swap, the Company received 3,149,606 common shares of the shareholder (see note 10), and the shareholder received 14,285,714 SVS of the Company. The shares issued by the Company is measured by reference to the fair value of the PBIC shares and was estimated to be \$967,541, which included a discount for lack of marketability of 14.68% related to the statutory four months plus one day trading restriction on the shares issued and acquired. As part of the Share Swap, each of the shareholder and the Company have signed a voting and resale agreement providing that each party will be required to vote the shares acquired under the Share Swap as recommended by the other party and will be restricted from trading the shares for a period of 18 months.

- iii) The Company issued 1,678,572 SVS of the Company to an arm's length consultant with a fair value of \$85,554, in settlement of CAD\$235,000 (\$165,458) of accounts payable for services rendered.

The shares were issued pursuant to a termination of a consulting agreement.

- iv) The Company granted 100,000 restricted stock units ("RSU's") of the Company to an employee of the Company. Upon issuance, 33,333 of the RSUs vested immediately, 33,333 shall vest on January 1, 2021 and 33,334 shall vest on January 1, 2022. During the year ended December 31, 2020, the Company accelerated the vesting of the second and third tranches such that both tranches vested immediately. During the year ended December 31, 2020, the Company recognized share-based compensation of \$6,689 with respect to the 100,000 RSU's that vested during the year.
- v) The Company granted 430,000 restricted shares of the Company to employees of the Company. Upon issuance, 143,333 of the restricted shares vested immediately, 143,333 shall vest on January 1, 2021 and 143,334 shall vest on January 1, 2022. During the year ended December 31, 2020, the Company recognized share-based compensation of \$11,467 with respect to the 143,333 restricted shares that vested during the year ended December 31, 2020, and share-based compensation of \$16,182 for the remaining 286,667 restricted shares that have yet to vest. In total, 430,000 SVS were issued pursuant to this grant, with 286,667 yet to vest, which will be held in escrow until vesting conditions are met.
- vi) The Company issued 14,084,701 SVS upon conversion of 14,084.701 MVS.
- vii) The Company issued 6,666,667 SVS with a fair value of \$483,154 upon conversion of convertible promissory notes payable of CAD\$600,000 (see note 16). Pursuant to the settlement agreement, the conversion price was amended from CAD\$0.50 per share to CAD\$0.09 per share.
- viii) The Company issued 12,809,524 SVS with a fair value of \$1,179,601 pursuant to a Settlement Agreement (see note 15).
- ix) The Company received 2,379.122 of its own MVS upon divestiture of Red Ace (see note 3). During the year ended December 31, 2020, these shares were cancelled. The difference of \$154,405 between the fair value of the shares (\$16,093) and the stated capital (\$170,444) has been charged to deficit.

17. Share Capital (continued)

- x) The Company granted 2,750,000 RSU's of the Company to officers, directors and consultants of the

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Company. Upon issuance, 1,750,000 of the RSU's vested immediately, and 1,000,000 shall vest on October 2, 2021. During the year ended December 31, 2020, the Company accelerated the vesting of 500,000 RSU's such that they vested immediately. During the year ended December 31, 2020, the Company recognized share-based compensation of \$119,467 with respect to the 2,350,000 RSU's that vested during the year ended December 31, 2020, and share-based compensation of \$7,479 for the remaining 500,000 RSU's that have yet to vest.

xi) The Company entered into several debt settlement agreements with arm's length vendors pursuant to which the Company issued 6,867,500 SVS with a fair value of \$293,890 and 3,940,000 warrants with a fair value of \$53,450 (see note 18) to settle aggregate debt of \$865,220.

The following summarizes the Company's RSU activities during the years ended December 31, 2021 and 2020:

	Number of Securities Issued	Number of Securities Vested	Fair Value Upon Vesting
Balance, January 1, 2020	-	-	\$ -
RSUs granted (notes iv and x)	2,850,000	2,350,000	119,467
Restricted shares granted (note v)	430,000	143,333	6,689
Fair value of securities that continued to vest during the year	-	-	23,661
Balance, December 31, 2020	3,280,000	2,493,333	149,817
Fair value of securities that continued to vest during the period	-	500,000	27,842
Restricted shares cancelled (note ix)	(170,000)	83,333	-
RSUs granted (note iii)	7,362,500	2,062,500	130,147
Balance, December 31, 2021	10,472,500	5,139,166	\$ 307,806

18. Stock Options and Warrants

(a) Stock Options

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The maximum number of common shares reserved for issuance and available for purchase pursuant to options granted under the Plan cannot exceed 10% of the total number of common shares of the Company issued and outstanding at the date of any grant made. In addition, the aggregate number of shares so reserved for issuance to one person may not exceed 5% of the issued and outstanding shares in any given 12-month period. Options pursuant to the Plan are granted at the discretion of the Board of Directors, vest at schedules determined by the Board, and have an exercise price of not less than that permitted by the stock exchange on which the shares are listed.

18. Stock Options and Warrants (continued)

(a) Stock Options (continued)

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The following summarizes the stock option activities:

	Number of Options	Weighted Average Exercise Price (CAD)
Balance, January 1, 2020	6,629,630	\$ 0.52
Granted	1,670,000	0.09
Expired	(303,330)	(0.52)
Forfeited	(216,300)	(0.52)
Balance, December 31, 2020	7,780,000	0.43
Granted	4,575,000	0.10
Expired	(250,000)	(0.55)
Forfeited	(390,000)	(0.15)
Balance, December 31, 2021	11,715,000	\$ 0.31

The Company had the following stock options outstanding at December 31, 2021:

Number of Options	Exercisable	Exercise Price (\$CAD)	Remaining Contractual Life (Years)	Expiry Date
1,870,000	1,870,000	\$ 0.52	0.53	July 11, 2022
3,750,000	3,000,000	\$ 0.52	2.53	July 11, 2024
220,000	146,666	\$ 0.11	3.31	April 21, 2025
1,000,000	1,000,000	\$ 0.08	1.75	October 1, 2023
300,000	300,000	\$ 0.10	1.75	October 1, 2023
4,575,000	3,165,000	\$ 0.10	3.00	December 31, 2024
11,715,000	9,481,666	\$ 0.31	2.33	

During the year ended December 31, 2021, the Company granted 4,575,000 stock options to certain officers, directors, employees and consultants of the Company. These stock options are exercisable at \$0.10 per SVS and expire 3 years from the date of issuance. Of the 4,575,000 SVS issued, 3,165,000 SVS were vested immediately while the remaining vest during the year ended December 31, 2022.

The fair value of the issued stock options of CAD\$378,117 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.13%
Forfeiture rate	0%
Expected life	3 years
Expected volatility	203%*

18. Stock Options and Warrants (continued)

The Company had the following stock options outstanding as at December 31, 2020:

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Number of Options	Exercisable	Exercise Price (\$CAD)	Remaining Contractual Life (Years)	Expiry Date
250,000	250,000	\$ 0.55	0.56	July 24, 2021
1,870,000	1,038,125	\$ 0.52	1.53	July 11, 2022
15,000	5,000	\$ 0.52	2.53	July 11, 2023
3,975,000	2,681,250	\$ 0.52	3.53	July 11, 2024
370,000	123,333	\$ 0.11	4.31	April 21, 2025
1,000,000	1,000,000	\$ 0.08	2.75	October 1, 2023
300,000	300,000	\$ 0.10	2.75	October 1, 2023
7,780,000	5,397,708	\$ 0.43	2.86	

During the year ended December 31, 2020, the Company:

- i) Granted 370,000 stock options to certain employees. Each option allows the holder to purchase one SVS of the Company at an exercise price of CAD\$0.11 per unit for a period of five years. Of these options, 123,000 vested on the initial grant date, 123,333 vest on January 1, 2021 and 123,334 vest on January 1, 2022.

The fair value of the options of CAD\$30,192 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.38%
Forfeiture rate	0%
Expected life	5 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history.

- ii) Granted 1,300,000 stock options to two officers and directors which vested immediately. Each option allows the holder to purchase one SVS of the Company at exercise prices of CAD\$0.10 and CAD\$0.08 per unit for a period of three years.

The fair value of the options of CAD\$64,410 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.21%
Forfeiture rate	0%
Expected life	3 years
Expected volatility	101%*

18. Stock Options and Warrants (continued)

(b) Warrants

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All of the outstanding warrants were issued in conjunction with the issuance of SVS. The fair value of warrants issued and outstanding is reflected in contributed surplus. Amounts for warrants that are subsequently exercised are transferred from contributed surplus to share capital.

The following summarizes the warrant activities:

	Number of Warrants	Weighted Average Exercise Price (\$CAD)
Balance, January 1, 2020	5,914,641	\$ 0.64
Issued pursuant to private placement (note 17)	3,571,428	0.18
Issued pursuant to Settlement Agreements (notes 15 and 17)	9,201,905	0.13
Issued in connection with Operating Facility (note 15)	6,666,667	0.15
Expired	(215,550)	(0.50)
Balance, December 31, 2020	25,139,091	\$ 0.26
Issued pursuant to private placement (note 17)	11,073,700	0.10
Issued pursuant to finder warrants for private placement	454,800	0.10
Issued in connection with Service provider (note 17)	12,000,000	0.115
Issued in connection with Service provider (note 17)	35,000	0.15
Expired	(8,099,091)	(0.46)
Balance, December 31, 2021	40,603,500	\$ 0.13

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18. Stock Options and Warrants (continued)

(b) Warrants (continued)

During the year ended December 31, 2021, the Company:

- i) In connection with a non-brokered private placement of SVS, issued 11,073,700 share purchase warrants exercisable at \$0.10 per SVS. These warrants expire 18 months from the date of issuance.
- ii) Issued 454,800 finders warrants in connection with a non-brokered private placement of SVS.

The fair value of the warrants of CAD\$21,556 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.81%
Expected life	1.5 years
Expected volatility	134%

The fair value of these finders warrants were included as share-issuance costs.

- iii) Issued 12,000,000 share purchase warrants in connection with a marketing service provider, exercisable at \$0.115 per SVS, expiring 24 months from the date of issuance. Of the 12,000,000 warrants issued, 2,000,000 warrants vested immediately while the remaining vest over certain time and performance milestones.

The fair value of these warrants amounted to CAD\$713,962 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.97%
Expected life	2 years
Expected volatility	145%

Share-based compensation expense related to these issued warrants amounted to CAD\$118,994 during the year ended December 31, 2021 and have been included in marketing expense.

- iv) Issued 35,000 share purchase warrants to a service provider, exercisable at \$0.15 per SVS, expiring 18 months from the date of issuance.

The fair value of these warrants amounted to CAD\$1,438 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.13%
Expected life	1.5 years
Expected volatility	128%

Share-based compensation expense related to these issued warrants amounted to CAD\$1,438 during the year ended December 31, 2021, and have been included in marketing expense.

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18. Stock Options and Warrants (continued)

(b) Warrants (continued)

During the year ended December 31, 2020, the Company:

- i) Issued 3,571,428 warrants as disclosed in note 17(ii). Each warrant allows the holder to purchase one common share of the Company at an exercise price of CAD\$0.175 per unit for a period of 24 months.

The fair value of the warrants of \$106,148 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.630%
Expected life	2 years
Expected volatility	101%*

* Volatility was estimated using companies that the Company considers comparable that have trading and volatility history.

- ii) Issued 5,261,905 warrants as disclosed in note 17. Each warrant allows the holder to purchase one common share of the Company at an exercise price of CAD\$0.15 per unit for a period of 24 months.

The fair value of the warrants of \$200,801 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.27%
Expected life	2 years
Expected volatility	87%*

- iii) Issued 6,666,667 warrants as disclosed in note 15. Each warrant allows the holder to purchase one common share of the Company at an exercise price of CAD\$0.15 per unit for a period of 24 months.

The fair value of the warrants of \$254,408 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.27%
Expected life	2 years
Expected volatility	87%*

- iv) Issued 2,400,000 warrants as disclosed in note 17. Each warrant allows the holder to purchase one common share of the Company at an exercise price of CAD\$0.10 per unit until December 30, 2021.

The fair value of the warrants of \$24,663 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

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18. Stock Options and Warrants (continued)

(b) Warrants (continued)

Expected dividend yield	Nil
Risk-free interest rate	1.20%
Expected life	1 year
Expected volatility	101%*

- v) Issued 1,540,000 warrants as disclosed in note 17. Each warrant allows the holder to purchase one common share of the Company at an exercise price of CAD\$0.10 per unit for a until December 30, 2023.

The fair value of the warrants of \$28,787 was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.25%
Expected life	2 years
Expected volatility	90%*

The Company had the following warrants outstanding at December 31, 2021:

Number of Warrants	Exercisable	Exercise Price (\$CAD)	Remaining Contractual Life (Years)	Expiry Date
3,571,428	3,571,428	\$ 0.18	0.10	February 10, 2022
5,261,905	5,261,905	\$ 0.15	0.54	July 17, 2022
6,666,667	6,666,667	\$ 0.15	0.54	July 17, 2022
1,540,000	1,540,000	\$ 0.10	2.00	December 30, 2023
11,073,700	11,073,700	\$ 0.10	1.46	July 17, 2023
454,800	454,800	\$ 0.10	1.46	July 17, 2023
12,000,000	2,000,000	\$ 0.115	2.00	December 30, 2023
35,000	35,000	\$ 0.10	1.41	May 31, 2023
40,603,500	30,603,500	\$ 0.13	1.25	

The Company had the following warrants outstanding at December 31, 2020:

Number of Warrants	Exercisable	Exercise Price (\$CAD)	Remaining Contractual Life (Years)	Expiry Date
5,699,091	5,699,091	\$ 0.65	0.52	July 9, 2021
3,571,428	3,571,428	\$ 0.18	1.11	February 10, 2022
5,261,905	5,261,905	\$ 0.15	1.54	July 17, 2022
6,666,667	6,666,667	\$ 0.15	1.54	July 17, 2022
2,400,000	2,400,000	\$ 0.10	1.00	December 30, 2021
1,540,000	1,540,000	\$ 0.10	3.00	December 30, 2023
25,139,091	25,139,091	\$ 0.26	1.29	

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19. Income Taxes

The Company intends to be treated as a United States corporation for federal income tax purposes under section 7874 of the U.S. Tax Code and is expected to be subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada)) for Canadian income tax purposes. As a result the Company will be subject to taxation both in Canada and the United States which could have a material adverse effect on its financial condition and results of operations.

(i) Income Tax Expense

The following table reconciles income taxes calculated at combined United States federal/state tax rates with the income tax recovery in the financial statements:

	<u>2021</u>	<u>2020</u>
Loss before income taxes	\$ (3,298,022)	\$ (4,418,338)
Statutory rate	26.86%	25.81%
Expected income tax recovery	(885,849)	(1,140,373)
Permanent differences and other	1,020,730	422,458
Tax benefits not recognized	(134,881)	717,915
Income tax provision	<u>\$ -</u>	<u>\$ -</u>

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19. Income Taxes (continued)

(ii) Deferred Taxes

The deferred income tax assets (liabilities) as presented on the consolidated statements of financial position are as below:

	<u>2021</u>	<u>2020</u>
Deferred Tax Assets		
Amounts related to tax loss and credit carry forwards	\$ 6,431	\$ 20,163
Deferred Tax Liabilities		
Property, plant and equipment	(6,431)	(20,163)
Net Deferred Tax Assets	<u>\$ -</u>	<u>\$ -</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax liabilities result primarily from amounts not deductible for accounting purposes until future periods. Deferred income tax assets result primarily from operating tax loss carry forwards and have been offset against deferred income tax liabilities.

The following are the unrecognized deductible temporary differences

Non-capital loss carryforwards - Canada	\$ 13,517,479
Net operating loss carryforwards - USA	9,460,788
Issuance costs	113,193
Property and equipment	2,762
	<u>\$ 23,094,222</u>

Net operating losses in the US in the amount of \$9,460,788 may be carried forward indefinitely, subject to certain conditions. Non-capital losses in Canada begin expiring in 2026 through 2041.

20. License Agreement Termination

During the year ended December 31, 2020, the Company and a licensee entered into a termination agreement and mutual release with respect to a license to use certain intellectual property of the Company. Pursuant to the agreement, the Company received consideration with fair values as follows:

Common shares of the licensee's parent company	\$ 530,592
Finished goods inventory	209,906
Raw materials inventory	31,820
Manufacturing equipment	59,594
	<u>\$ 831,912</u>

The consideration received by the Company was agreed to in order to settle accounts receivable and contract asset with an aggregate value of \$196,805, with the balance of the fair value of the consideration received of \$635,107 allocated to license revenue as follows:

Accounts receivable	\$ 37,875
Contract asset	158,930
License revenue	635,107
	<u>\$ 831,912</u>

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21. Related Party Transactions

During the year ended December 31, 2021 and 2020, the Company incurred the following related party transactions:

- i) During the year ended December 31, 2020, the Company issued 770,000 SVS to settle outstanding debt of \$30,000 owed to this company. Included in share-based compensation for the year ended December 31, 2020 is \$22,290 related to the continued vesting of stock options granted to one of these companies.
- ii) Licensing and product sales revenue of \$40,073 (2020 - \$81,529) was recognized on sales to a company controlled by the sibling of the Company's former President and CEO. As at December 31, 2021, accounts receivable included \$3,575 (2020 - \$43,634) owing from this company.
- iii) Key Management Personnel consists of the former President and CEO, the former interim President the current President, CEO and COO, and the CFO. The compensation paid or payable to key management for the year ended December 31, 2021 includes salaries and bonus of \$283,418.71 (2020 - \$237,419) and professional fees of \$170,000 (2020 - \$60,000). Included in share-based compensation for the year ended December 31, 2021 was a bonus paid in stocks of \$201,546 (2020 - \$125,000), \$75,988 (2020 - \$162,076) related to the continued vesting of stock options, and \$47,326 (2020 - \$14,158) related to RSU's granted to key members of management.
- iv) Included in share-based compensation for the year ended December 31, 2021 \$6,820 (2020 - \$83,667) related to the continued vesting of stock options, and \$105,317 (2020 - \$109,000) related to RSU's granted to directors of the Company.
- v) During the year ended December 31, 2020, three companies, of which the CEO of one of the Company's shareholders is an officer and director, returned 10,000,000 SVS to the Company for cancellation.

Additional related party transactions are disclosed in notes 3, 10, 15, 16,17.

22. Financial Instruments

i) Market Risk

a) *Currency Risk*

As at December 31, 2021, the Company's cash and cash equivalents included CAD\$407,232 (2020 - CAD\$41,073), marketable securities included CAD\$771,653.72 (2020 - CAD\$1,259,843), accounts payable and accrued liabilities included CAD\$199,473 (2020 - CAD\$580,512) and due to shareholder included CAD\$182,807 (2020 - CAD\$1,517,067). If the United States Dollar had weakened (strengthened) by 10% compared to the CAD, net loss for the year would have been \$62,834 higher (lower) (2020 - \$62,572 higher (lower)).

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22. Financial Instruments (continued)

b) Interest Rate Risk

As at December 31, 2021 and 2020, the Company's exposure to interest rate risk would relate to its amounts due to shareholder, but its interest rate risk is limited as the aforementioned financial instruments are fixed interest rate instruments.

c) Credit Risk

Credit risk is derived from cash and trade and other receivables. The Company places the majority of its cash in deposit with major United States and Canadian financial institutions. The Company has established a policy to mitigate the risk of loss related to granting customer credit. Cash balances are maintained by directors and officers of the Company with no access granted to other parties.

The carrying amount of cash, trade and other receivables and non-financial instruments including contract asset represents the Company's maximum exposure to credit risk, which amounted to \$723,657 as at December 31, 2021 (2020 - \$370,506). The provision for expected credit losses included in trade accounts receivable as at December 31, 2021 is \$89,392 (2020 - \$248,956).

Included in revenue for the year ended December 31, 2021 was \$888,192 from two customers (2020 - revenue of \$1,086,352 from three customers), each of which represent greater than 10% of the Company's revenue.

As at December 31, 2021 and 2020, the Company's trade accounts receivable were aged as follows:

	2021	2020
Current	\$ 187,068	\$ 70,226
1-30 days	-	76,510
31 days- 60 days	3,381	49,065
61 days-older	88,891	314,403
Expected credit losses	(89,392)	(263,770)
	<u>\$ 189,948</u>	<u>\$ 246,434</u>

The change in the provision for expected credit losses is as follows:

	2021	2020
Balance, beginning of year	\$ 263,770	\$ 259,366
Amounts previously provided for, written-off during the year	(174,979)	(131,235)
Additional allowance	17,810	259,388
Reversal of prior periods provision	(17,209)	(123,749)
Balance, end of year	<u>\$ 89,392</u>	<u>\$ 263,770</u>

22. Financial Instruments (continued)

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The change in the Company's contract assets are as follows:

	2021	2020
Balance, beginning of year	\$ 54,418	\$ 188,610
Recognition of revenue pursuant to IFRS 15	18,000	24,738
Collected from licensee (note 20)	(29,803)	(158,930)
Balance, end of year	<u>\$ 42,615</u>	<u>\$ 54,418</u>

The change in the Company's contract liabilities are as follows:

	2021	2020
Balance, beginning of year	\$ 900,242	\$ 310,000
Additions for new licensees	200,000	1,000,000
Recognition of revenue pursuant to IFRS 15	(214,709)	(259,758)
Impairment	(31,108)	(150,000)
Balance, end of year	<u>\$ 854,425</u>	<u>\$ 900,242</u>

During the year ended December 31, 2019, the Company recognized a contract liability in the amount of \$300,000 related to a non-refundable start-up fee. Of the \$300,000 fee, \$150,000 had been received in cash while the balance of \$150,000 was allocated to accounts receivable. During the year ended December 31, 2020 the Company recorded revenue of \$150,000 for the portion of the fee received in cash. Subsequent to the year ended December 31, 2020, the Company terminated the license agreement (see note above) and did not receive the remaining \$150,000. Consequently, the Company recognized an impairment of the receivable and contract liability for \$150,000. During the year ended December 31, 2021, the Company recorded an impairment on molds previously sold to a licensee. In connection with the impairment of the molds, the Company recorded an impairment of contract liability in the amount of \$31,108 which was recorded as an offset of the gain/loss in disposition of assets in the Company's statement of operations and comprehensive loss.

d) Liquidity Risk

Liquidity risk represents the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at December 31, 2021, the Company has current assets of \$1,647,362 (2020 - \$745,002) and current liabilities of \$1,357,721 (2020 - \$2,523,286), which resulted in a working capital surplus of \$289,641 (2020 - working capital deficiency of \$1,778,284).

As at December 31, 2021, the contractual maturities of the Company's accounts payable and accrued liabilities and amounts due to shareholder are as follows:

	Year 1
Accounts payable and accrued liabilities	\$ 978,251
Due to shareholder	144,192
	<u>\$ 1,122,443</u>

22. Financial Instruments (continued)

e) Fair Values

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The carrying amounts of the Company's cash, trade and other receivables, accounts payable and accrued liabilities, and due to shareholder and non-financial instruments including contract assets approximate their fair values because of the short-term nature of these items.

f) Fair Value Hierarchy

A number of the Company's accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities. The Company has an established framework for all significant fair value measurements, including Level 3 fair values. When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. The Company regularly assesses significant unobservable inputs and valuation adjustments. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash, cash held in trust and marketable securities are included in Level 1. During the year ended December 31, 2021 and 2020, there were no transfers of amounts between levels.

23. Segmented Information

The Company's only operating segment is the licensing of cannabis infused products and the distribution and sale of ancillary products. All property and equipment are located in the United States. Revenues were generated in the United States and Canada during the year ended December 31, 2021 and 2020. The majority of the Company's expenses are incurred in United States dollars with vendors located in the United States. Expenses incurred in Canadian Dollars typically relate to compliance associated with being a publicly-traded company. The Company's non-current assets and revenue by country are as follows:

	As at December 31, 2021			As at December 31, 2020		
	Canada	United States	Total	Canada	United States	Total
Non-current assets	\$ -	\$79,308	\$79,308	\$989,509	\$152,667	\$1,142,176

	As at December 31, 2021			As at December 31, 2020		
	Canada	United States	Total	Canada	United States	Total
Revenue	\$631,095	\$635,361	\$1,266,456	\$377,725	\$1,249,756	\$1,627,481

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24. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Bank charges and interest	\$10,107	\$16,481
Business taxes	8,628	2,129
Depreciation and amortization of property and equipment and right-of-use assets	33,160	78,886
Dues, subscriptions, and licenses	68,688	4,044
Insurance	137,623	163,915
Occupancy	-	(4,502)
Office expense	96,414	85,470
Telephone	782	4,756
Travel	141,522	48,965
	<u>\$496,924</u>	<u>\$400,144</u>

25. Adjustment for Items Included in Net Loss

Items included in net loss for the years ended December 31, 2021 and 2020 that do not contribute to cash flows provided by (used in) operating activities are as follows:

	<u>2021</u>	<u>2020</u>
Interest expense (notes 13, 15 and 16)	\$19,092	\$40,440
Interest expense on lease liabilities	-	659
Government assistance (note 13)	(89,886)	(142,567)
	<u>\$(70,794)</u>	<u>\$(101,468)</u>

26. Changes in Non-cash Working Capital

The changes to the Company's non-cash working capital for the year ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Trade and other receivables, net	\$105,885	(\$18,137)
Inventory	1,430	(80,833)
Prepaid expenses	46,948	82,423
Accounts payable and accrued liabilities	(189,445)	684,069
Contract asset	11,803	(24,738)
Contract liability	(14,709)	(409,758)
	<u>(\$38,088)</u>	<u>\$233,026</u>

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27. Net Cash Provided by (used in) Investing Activities

The items giving rise to changes in the Company's cash flows from investing activities for the year ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Investment in Joint Venture	-	(\$100,000)
Purchase of property and equipment	(37,711)	(87,979)
Cash acquired upon acquisition of CB Brands	-	616
Proceeds of disposition of marketable securities	-	426,584
Proceeds of disposition of assets	35,177	100,000
	<u>(\$2,534)</u>	<u>\$339,221</u>

28. Net Cash Provided by Financing Activities

The items giving rise to changes in the Company's cash flows from financing activities for the year ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Proceeds from issuance of common shares	\$2,356,712	\$376,223
Net cash acquired upon disposition of Red Ace, LLC	-	3,130
Share issuance costs	(39,439)	(19,767)
Repayment of lease liabilities	-	(32,084)
Proceeds of promissory notes	40,000	150,567
Repayment of promissory notes	(40,000)	(450)
Convertible promissory notes payable	73,832	-
Due to shareholder	141,837	1,132,088
Proceeds from notes payable	-	(10,000)
	<u>\$2,532,942</u>	<u>\$1,599,707</u>

29. Revenue

The Company derives revenue from the transfer of goods and services over time and at a point-in-time from the following revenue streams as follows:

Year Ended December 31, 2021	<u>Point-in-time</u>	<u>Over time</u>	<u>Total</u>
Online product sales	\$74,835	\$ -	\$74,835
Licensing	1,013,279	178,342	1,191,621
Gross Revenue	<u>\$1,088,114</u>	<u>\$178,342</u>	<u>\$1,266,456</u>

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29. Revenue (continued)

Year Ended December 31, 2020	Point-in-time	Over time	Total
Online product sales	\$120,915	\$ -	\$120,915
Licensing	394,384	467,111	861,495
Licensing pursuant to termination (note 20)	635,107	-	635,107
Other	9,964	-	9,964
Gross Revenue	<u>\$1,160,370</u>	<u>\$467,111</u>	<u>\$1,627,481</u>

30. Debt Settlements

On July 27, 2020, the Company entered into a settlement agreement with respect to two lease agreements for office space. Pursuant to the settlement agreement, the Company was to relinquish its security deposits in the amount of \$15,515 and make a final payment of \$10,000 in satisfaction of all amounts owed by the Company. The Company recognized a gain of \$31,038 in connection with this debt settlement.

On July 17, 2020, the Company entered into a settlement agreement as disclosed in note 30, the effect of which was a loss of \$1,692,397.

During the year ended December 31, 2020, the Company entered into several debt settlement agreements with arm's length vendors pursuant to which the Company issued 8,546,071 SVS with a fair value of \$379,444 and 3,940,000 warrants with a fair value of \$53,450 (see note 18) to settle aggregate debt of \$907,276. The Company recognized a gain of \$474,382 in connection with these debt settlements.

During the year ended December 31, 2020, the Company received a credit memo in the amount of \$250,000 in exchange for inventory with a historical value of \$146,250. The difference of \$103,750 was recorded as a gain on the settlement of debt.

The net effect of all of the Company's debt settlements entered into during the year ended December 31, 2020 was a loss of \$1,083,227.

31. Capital Management

The Company includes equity, comprised of share capital, contributed surplus (including the fair value of equity instruments to be issued) and deficit, in the definition of capital.

The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern; and
- (ii) to raise sufficient capital to meet its general and administrative expenditures.

31. Capital Management (continued)

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The Company manages its capital structure and makes adjustments based on the general economic conditions, the Company's short-term working capital requirements, and its planned capital requirements and strategic growth initiatives.

The Company's principal source of capital is from the issuance of common shares and debt financing from shareholders. In order to achieve its objectives, the Company expects to spend its working capital, when applicable, and raise additional funds as required.

The Company does not have any externally imposed capital requirements.

32. Discontinued Operations

During the year ended December 31, 2020, the Company disposed of its entire interest in Red Ace. Refer to note 3 for more information and calculation of gain on disposition. Additional information with respect to the components of income and cash flows from discontinued operations are as follows:

Income from Discontinued Operations

	<u>2020</u>
Revenue	
Product Sales	\$ 165,278
Cost of Goods Sold	<u>97,368</u>
Gross Profit	<u>67,910</u>
Expenses	
Amortization	5,859
Contract Services	93,452
Bank charges	573
Occupancy	2,406
Office expenses	9,539
Insurance	6,344
Sales and marketing	109,908
Professional fees	2,683
Travel	<u>526</u>
	231,290
Loss before the Undernoted	(163,380)
Gain on disposition of Red Ace (note 3)	<u>166,696</u>
Income from Discontinued Operations	<u>\$ 3,316</u>
Income from Discontinued Operations per Share - basic and diluted	<u>\$ -</u>
Weighted Average Number of SVS and MVS Outstanding - basic and diluted	<u>139,419,484</u>

32. Discontinued Operations (continued)

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Cash Flows from Discontinued Operations

	<u>2020</u>
Net cash used in operating activities	\$ (39,527)
Net cash provided by financing activities	<u>(16,280)</u>
Change in cash	<u>\$ (55,807)</u>

33. Subsequent Events

Subsequent to the year ended December 31, 2021:

- i) The Company entered into a promissory note in the principal amount of CAD\$100,000. This promissory note bears interest at 15% per annum, and matures on April 25, 2023. In connection with this promissory note, the Company agreed to issue 20,000 share purchase warrants;
- ii) The Company issued 4,970,000 SVS upon the vesting of RSUs granted during the year ended December 31, 2021; and
- iii) The Company entered into a series of share purchase and sale transactions (the “Share Sale Transactions”) for the sale of an aggregate of 2,060,000 common shares of PBIC (Note 10) for gross proceeds of CAD\$412,000. As a result of the Share Sale Transactions, the Company’s ownership of common shares of PBIC was reduced to 1,089,000 common shares.