D. BROOKS & ASSOCIATES CPAs

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Home Bistro, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Home Bistro, Inc. (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years ended December 31, 2020 and 2019, and the related consolidated financial statement footnotes (collectively referred to as the consolidated financial statements).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019 and the results of its operations and its cash flows for the years ended December 31, 2020 and 2019 in conformity with accounting principles generally accepted in the United States of America.

Substantial Doubt Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 of the consolidated financial statements, the Company suffered recurring losses from operations and has a significant accumulated deficit. In addition, the Company continues to experience negative cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2 of the consolidated financial statements. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee or those charged with governance and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Description of the Matter

During the year ended December 31, 2020, the Company issued convertible debt notes (the "Notes") that allow the holders to convert the debt into common stock upon certain default events not within the control of the Company. The Company determined that the terms of the Notes included an embedded conversion option to be accounted for as derivative liabilities, which are required to be accounted for at fair value upon issuance and each reporting period, under the provisions of *ASC 815-40 – Derivatives and Hedging – Contracts in an Entity's Own Stock (ACS 815).*

As disclosed in Notes 2 and 4 to the consolidated financial statements, the Company recorded initial derivative liabilities and debt discount of $212,344 from the embedded conversion options. Further, as of December 31, 2020, the Company recorded a gain on the change in fair value of the derivative liabilities of $32,315. There is no current observable market for these types of derivatives and, as such, the Company measured the initial and December 31, 2020 fair value of the embedded derivative liabilities using the Bionomial lattice valuation model. Such a model includes techniques that require management to make several assumptions with a high degree of subjectivity related to stock price, discount yield, risk free rates, volatility, probability of principal repayment in cash or common stock and probability of the Company defaulting on the convertible debt notes.

We identified the evaluation of the terms of financial instruments to determine whether the embedded conversion option met the definition of a derivative, the analysis of the accounting treatment, presentation and disclosures, and the valuation of the derivative liabilities as critical audit matters due to the complex nature of these financial instruments.

How the Critical Audit Matter Was Addressed in the Audit

The primary procedures we performed to address these critical audit matters included (a) reviewing and testing the Company's conclusions as to whether the financial instruments included an embedded conversion option that met the definition of a derivative as defined by *ASC 815* by evaluating and comparing the Company's analysis and conclusions to authoritative and interpretive literature, (b) comparing the accounting treatment and presentation to that described by authoritative and interpretive literature, (c) testing the Company's process and methodology for valuing the derivatives by comparing it to generally accepted methodologies for valuing derivatives, (d) testing the Company's valuation of the derivatives by testing assumptions and data used in the valuation model including the term, volatility and risk free rate, (e) recomputing the fair value of the derivative at issuance and December 31, 2020 and (f) utilizing a valuation specialist to assist in evaluating the Company's model, methodology, and significant assumptions.

We agreed with management's final conclusions with regards to the accounting treatment of the embedded conversion options, valuations, accounting treatment, presentation, and disclosures.

D. Brooks and Associates CPAs, P.A

D. Brooks and Associates CPAs, P.A.

Palm Beach Gardens, Florida
March 22, 2021

We have served as the Company's independent auditor since 2020

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HOME BISTRO, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash	$ 447,354	$ 7,137
Prepaid expenses and other current assets	28,588	916
Note receivable	5,000	-
Total Current Assets	480,942	8,053
OTHER ASSETS:		
Property and equipment, net	2,728	-
Total Assets	$ 483,670	$ 8,053
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 352,466	$ 223,046
Accrued expenses and other liabilities	126,273	24,391
Convertible notes payable, net of debt discount	141,476	-
Note payable - in default	-	3,738
Notes payable - current portion	20,068	-
Advances payable	78,497	18,192
Derivative liabilities	180,029	-
Unredeemed gift cards	48,311	10,365
Total Current Liabilities	947,120	279,732
LONG-TERM LIABILITIES:		
Notes payable - long-term portion	151,544	-
Common stock repurchase obligation	1,300,000	-
Total Liabilities	2,398,664	279,732
Commitments and contingency (Note 13):		
STOCKHOLDERS' DEFICIT:		
Preferred Stock: $0.001 par value; 20,000,000 shares authorized;		
Convertible Series B Preferred stock: $0.001 Par Value; 500,000 Shares Authorized; nil shares issued and outstanding as of December 31, 2020 and 2019	-	-
Common stock: $0.001 par value; 1,000,000,000 shares authorized; 19,123,767 and 13,104,561 shares issued and outstanding as of December 31, 2020 and 2019	19,123	13,105
Additional paid-in capital	4,399,272	4,806,944
Accumulated deficit	(6,333,389)	(5,091,728)
Total Stockholders' Deficit	(1,914,994)	(271,679)
Total Liabilities and Stockholders' Deficit	$ 483,670	$ 8,053

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

HOME BISTRO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31, 2020	2019
Product sales, net	$ 1,335,859	$ 836,599
Cost of sales	873,289	499,396
Gross profit	462,570	337,203
Operating Expenses:		
Compensation and related expenses	547,940	362,526
Professional and consulting expenses	434,450	27,231
Product development expense	360,000	-
Selling and marketing expenses	226,428	57,067
General and administrative expenses	198,082	104,569
Total Operating Expenses	1,766,900	551,393
Operating Loss from Continuing Operations	(1,304,330)	(214,190)
Other Income (Expense):		
Interest expense, net	(19,924)	(3,341)
Change in fair value of derivative liabilities	32,315	-
Gain from extinguishment of accounts payable	7,075	18,470
Other income	5,000	-
Total Other Income, net	24,466	15,129
Loss from Continuing Operations Before Provision for Income Taxes	(1,279,864)	(199,061)
Provision for Income Taxes	-	-
Loss from Continuing Operations	(1,279,864)	(199,061)
Discontinued Operations:		
Income from Discontinued Operations Before Provision for Income Taxes	38,203	-
Provision for Income Taxes	-	-
Income from Discontinued Operations	38,203	-
Net Loss	$ (1,241,661)	$ (199,061)
BASIC AND DILUTED LOSS PER COMMON SHARE:		
Continuing operations - basic and diluted	$ (0.07)	$ (0.02)
Discontinued operations - basic	$ 0.00	$ 0.00
Discontinued operations - diluted	$ 0.00	$ 0.00
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	17,393,644	13,104,561
Diluted	17,393,644	13,104,561

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

HOME BISTRO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Years Ended December 31, 2020 and 2019

	Preferred Stock		Common Stock		Additional		Total
	Number of Shares	Amount	Number of Shares	Amount	Paid-in Capital	Accumulated Deficit	Stockholders' Deficit
Balance at December 31, 2018	-	$ -	13,104,561	$ 13,105	$ 4,623,650	$ (4,892,667)	$ (255,912)
Accretion of stock-based compensation	-	-	-	-	183,294	-	183,294
Net loss	-	-	-	-	-	(199,061)	(199,061)
Balance at December 31, 2019	-	-	13,104,561	13,105	4,806,944	(5,091,728)	(271,679)
Warrants issued for cash	-	-	-	-	100,005	-	100,005
Common stock issued for services	-	-	4,000,577	4,000	234,269	-	238,269
Recapitalization of the Company	250,000	250	1,899,094	1,899	(196,873)	-	(194,724)
Common stock repurchase obligation (see Note 3)	-	-	-	-	(1,300,000)	-	(1,300,000)
Disposal of a component with related party (see Note 3)	(250,000)	(250)	-	-	131,471	-	131,221
Warrant issued pursuant to an agreement	-	-	-	-	360,000	-	360,000
Warrant issued for services	-	-	-	-	11,471	-	11,471
Accretion of stock-based compensation	-	-	-	-	213,841	-	213,841
Common stock issued as commitment fee with convertible notes payable	-	-	119,535	119	38,144	-	38,263
Net loss	-	-	-	-	-	(1,241,661)	(1,241,661)
Balance at December 31, 2020	-	$ -	19,123,767	$ 19,123	$ 4,399,272	$ (6,333,389)	$ (1,914,994)

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

HOME BISTRO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2020	For the Years Ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,241,661)	$ (199,061)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	440	-
Stock-based compensation	213,841	183,294
Common stock and warrant issued for services	609,739	-
Gain on extinguishment of accounts payable	(7,075)	(18,470)
Amortization of debt discount	7,983	-
Change in fair value of derivative liabilities	(32,315)	-
Change in operating assets and liabilities:		
Inventory	-	7,306
Prepaid expenses and other current assets	(8,896)	7,428
Accounts payable	43,980	(11,140)
Accrued expense and other liabilities	102,201	-
Unredeemed gift cards	37,946	399
Net Cash Used in Operating Activities	(273,816)	(30,244)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(3,168)	-
Cash acquired from acquisition	4,917	-
Net cash provided by investing activities	1,749	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of warrants	100,005	-
Proceeds from notes payable	171,612	-
Proceeds from note payable - related party	-	3,000
Advance payable	140,840	23,000
Proceeds from convertible note payable	384,100	-
Repayment of note payable - related party	-	(3,000)
Repayment of note payable - in default	(3,738)	(34,900)
Repayments of advance payable	(80,535)	-
Net Cash (Used in) Provided by Financing Activities	712,284	(11,900)
Net Change in Cash	440,217	(42,144)
Cash - beginning of year	7,137	49,281
Cash - end of year	$ 447,354	$ 7,137
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 7,670	$ 3,064
Income taxes	$ -	$ -
Non-cash investing and financing activities:		
Initial amount of ROU asset and related liability	$ 32,444	$ -
Termination of the ROU asset and related liability	$ 27,843	$ -
Disposal of a component with related party	$ 131,221	$ -
Repurchase obligation pursuant to the Put Option Agreement	$ 1,300,000	$ -
Common stock issued with convertible notes payable recorded as debt discount	$ 38,263	$ -
Initial derivative liability recorded in connection with convertible notes payable	$ 212,344	$ -
Net Liabilities Assumed in Reverse Acquisition:		
Cash	$ 4,917	$ -
Prepaid expenses	9,776	-
Operating right-of-use asset	32,444	-
Accounts payable and accrued liabilities	(209,417)	-
Operating right-of-use liability	(32,444)	-
Net liability assumed	$ (194,724)	$ -

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

HOME BISTRO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

Home Bistro, Inc. (formerly known as Gratitude Health, Inc.) (the "Company") was incorporated in the State of Nevada on December 17, 2009. Effective March 23, 2018, the Company changed its name from Vapir Enterprises Inc. to Gratitude Health, Inc. On September 14, 2020, the Company changed its name from Gratitude Health, Inc. to Home Bistro, Inc. The Company is in the business of providing prepackaged and prepared meals to consumers focused on offering a broad array of the highest quality meal delivery, and preparation services. The Company's primary former operations were in the business of manufacturing, selling, and marketing functional RTD (Ready to Drink) beverages sold under the Company's trademark (the "RTD Business"). The RTD Business was disposed on September 25, 2020 as discussed below.

On April 7, 2020, the Board of Directors of the Company approved the increase of authorized shares of common stock from 600,000,000 to 1,000,000,000 (see Note 11).

On April 20, 2020, the Company, Fresh Market Merger Sub, Inc., a Delaware corporation and a newly created wholly-owned subsidiary of the Company ("Merger Sub"), and Home Bistro, Inc., a privately-held Delaware corporation formed on April 9, 2013, engaged in the food preparation and home-delivery business (presently known as Home Bistro Holdings, Inc., a Nevada corporation) and now wholly-owned subsidiary of the Company ("Home Bistro Holdings") (see Note 3), entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which, among other things, Merger Sub agreed to merge with and into Home Bistro Holdings, with Home Bistro Holdings becoming a wholly-owned subsidiary of the Company and the surviving corporation in the merger (the "Merger"). Pursuant to the terms of the Merger Agreement, Home Bistro Holdings filed a Certificate of Merger with the Nevada Secretary of State on April 20, 2020 (see Note 3).

On April 20, 2020, pursuant to the terms of the Merger Agreement, Roy G. Warren, Jr., Mike Edwards, and Bruce Zanca resigned as directors of the Company and Roy G. Warren, Jr. resigned as Chief Operating Officer of the Company. The resignations were not the result of any disagreement related to the Company's operations, policies, or practices. Furthermore, on April 20, 2020, Mr. Zalmi Duchman, the Chief Executive Officer of Home Bistro Holdings, Michael Finkelstein and Michael Novielli were appointed as directors of the Company. In addition, Mr. Duchman was appointed Chief Executive Officer.

The Merger constituted a change of control and the majority of the Board of Directors changed with the consummation of the Merger. The Company issued to the stockholders of Home Bistro Holdings shares of common stock and stock warrants which represented approximately 80% of the combined company on a fully converted basis after the closing of the Merger and approximately 51% of voting control. As a result of the above transactions and the Company's intent to dispose or divest the assets and liabilities associated with the RTD Business, this transaction was accounted for as a reverse recapitalization effected by a share exchange of Home Bistro Holdings. The consolidated financial statements are those of Home Bistro Holdings (the accounting acquirer) prior to the Merger and include the activity of the Company (the accounting acquiree) from the date of the Merger (see Note 3).

On September 14, 2020, the Company filed with the Secretary of State of the State of Nevada a Certificate of Amendment to its Articles of Incorporation to effect (i) a 1 for 31.993 reverse stock split of its common stock, par value $0.001 per share, with fractional shares rounding up to the nearest whole share (the "Reverse Stock Split"), and (ii) the change of the Company's name from "Gratitude Health, Inc." to "Home Bistro, Inc.". All share and per-share data and amounts have been retroactively adjusted as of the earliest period presented in the consolidated financial statements to reflect the Reverse Stock Split (see Note 3).

On Sept. 14, 2020, the Financial Industry Regulatory Authority approved the Company's symbol change from "GRTD" to "HBIS", effective twenty (20) business days from the approval date (see Note 3).

HOME BISTRO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

On September 25, 2020, the Company entered into, and closed the transactions contemplated by, that certain Asset Purchase Agreement (the "Asset Purchase Agreement"), by and among the Company, Gratitude Keto Holdings, Inc., a Florida corporation (the "Buyer" or "Gratitude Keto"), and the holder of 250,000 of the Company's issued and outstanding shares of Series B Preferred Stock, $0.001 par value per share (such stock, the "Series B Preferred Stock", and such stockholder, the "Stockholder"). Pursuant to the Asset Purchase Agreement, among other things, the Company agreed to sell to the Buyer all of the Company's business, assets and properties used, or held or developed for use, in its functional RTD Business, and the Buyer agreed to assume certain debts, obligations and liabilities related to the RTD Business. Furthermore, in connection with the Asset Purchase Agreement, the Buyer returned the 250,000 shares of Series B Preferred Stock held by the Stockholder which was then cancelled by the Company upon return. As a result, the Company has no outstanding shares of preferred stock. Additionally, the RTD Business activities were reclassified and reported as part of "discontinued operations" for all periods presented on the consolidated statements of operations. In addition, the Company assumed an accounts payable liability in the amount of $14,000 related to accounting expenses of the RTD Business for a period prior to the Merger. Pursuant to the Asset Purchase Agreement, the Buyer reimbursed the Company for the accounting expenses in amount of $14,000, of which $7,000 was payable in cash and the balance in form of a promissory note dated September 25, 2020 in the amount of $7,000. The promissory note bears an interest rate of 5% per annum, matures on April 25, 2021 and is payable in monthly installments of $1,000 commencing on October 25, 2020 through maturity (see Note 3).

The ongoing COVID-19 global and national health emergency has caused significant disruption in the international and United States economies and financial markets. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The spread of COVID-19 has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, labor shortages, supply chain interruptions and overall economic and financial market instability. The COVID-19 pandemic has the potential to significantly impact the Company's supply chain, food manufacturers, distribution centers, or logistics and other service providers. Additionally, the Company's service providers and their operations may be disrupted, temporarily closed or experience worker or meat or other food shortages, which could result in additional disruptions or delays in shipments of Home Bistro's products. To date, the Company has been able to avoid layoffs and furloughs of employees. The Company is not able to estimate the duration of the pandemic and potential impact on the business if disruptions or delays in shipments of product occur. To date, the Company is not aware of any such disruptions. In addition, a severe prolonged economic downturn could result in a variety of risks to the business, including weakened demand for product and a decreased ability to raise additional capital when needed on acceptable terms, if at all. As the situation continues to evolve, the Company will continue to closely monitor market conditions and respond accordingly. The Company has applied for and received certain financial assistance under the Coronavirus, Aid, Relief, and Economic Security Act ("CARES Act") enacted in March 2020 by the U.S. Government in response to COVID-19 (see Note 6).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and in accordance with Regulation S-X of the Securities and Exchange Commission (the "SEC"). The consolidated financial statements present the consolidated financial statements of the Company and Home Bistro Holdings, Inc., its wholly owned subsidiary for the years ended December 31, 2020 and 2019. All intercompany transactions and balances have been eliminated.

Going Concern

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, for the year ended December 31, 2020, the Company had net loss and cash used in operations of $1,241,661 and $273,817, respectively. As of December 31, 2020, the Company had an accumulated deficit, stockholders' deficit, and working capital deficit of $6,333,389, $1,914,994 and $466,178, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the issuance date of this report. The Company's primary source of operating funds in 2020 was primarily from third-party advances and proceeds from convertible notes payable and note payables. The Company has experienced net losses from operations since inception but expects these conditions to improve in the near term and beyond as it develops its business model.

Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive or raise additional debt and/or equity capital. Management believes that the Company's capital resources are not currently adequate to continue operating and maintaining its business strategy for a period of twelve months from the issuance date of this report. If the Company is unable to raise additional capital or secure additional lending in the near future, management expects that the Company will need to curtail or cease operations. These consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates as of December 31, 2020 and 2019 include the assumptions used in the redemption recognition method for unredeemed gift cards, collectability of note receivable, estimates of current and deferred income taxes and deferred tax valuation allowances, valuation of derivative liabilities, and the fair value of non-cash equity transactions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid instruments with a maturity of three months or less at the purchase date and money market accounts to be cash equivalents. As of December 31, 2020 and 2019, the Company did not have any cash equivalents.

The Company maintains its cash in bank and financial institution deposits that at times may exceed federally insured limits. As of December 31, 2020, the balance outstanding was in excess of FDIC insured levels by approximately $197,000. As of December 31, 2019, the balance outstanding was not in excess of FDIC insured levels. The Company has not experienced any losses in such accounts through December 31, 2020.

Fair Value of Financial Instruments and Fair Value Measurements

FASB ASC 820 - Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 requires disclosures about the fair value of all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about the fair value of financial instruments are based on pertinent information available to the Company on December 31, 2020. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments. FASB ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2—Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3—Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

HOME BISTRO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

The carrying amounts reported in the consolidated balance sheets for cash, due from and to related parties, prepaid expenses, accounts payable and accrued liabilities approximate their fair market value based on the short-term maturity of these instruments.

Assets or liabilities measured at fair value or a recurring basis included embedded conversion options in convertible debt (see Note 4) and were as follows at December 31, 2020:

	At December 31, 2020		
Description	**Level 1**	**Level 2**	**Level 3**
Derivative liabilities	$ —	$ —	$ 180,029

A roll forward of the level 3 valuation financial instruments is as follows:

	For the Year Ended December 31, 2020
Balance at beginning of year	$ —
Initial valuation of derivative liabilities included in debt discount	212,344
Change in fair value of derivative liabilities	(32,315)
Balance at end of year	$ 180,029

There were no assets or liabilities measured at fair value as of December 31, 2019.

ASC 825-10 “Financial Instruments” allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding equity instruments.

Derivative Liabilities

The Company has certain financial instruments that are embedded derivatives associated with capital raises. The Company evaluates all its financial instruments to determine if those contracts or any potential embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with ASC 815-10 – *Derivative and Hedging – Contract in Entity’s Own Equity*. This accounting treatment requires that the carrying amount of any derivatives be recorded at fair value at issuance and marked-to-market at each balance sheet date. In the event that the fair value is recorded as a liability, as is the case with the Company, the change in the fair value during the period is recorded as either other income or expense. Upon conversion, exercise or repayment, the respective derivative liability is marked to fair value at the conversion, repayment, or exercise date and then the related fair value amount is reclassified to other income or expense as part of gain or loss on debt extinguishment.

In July 2017, FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features. These amendments simplify the accounting for certain financial instruments with down-round features. The amendments require companies to disregard the down-round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. For public business entities, the amendments in Part I of the ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

HOME BISTRO, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

Revenue Recognition

The Company's revenues consist of high quality, direct-to-consumer, ready-made meals that can be ordered by customers through www.homebistro.com, and restaurant quality meats and seafood through its Colorado Prime Brand. Revenues from the Company's ready-made meals are recognized when the product is delivered to the customer and title has transferred, it is at this point in time that the Company's performance obligations have been completed. Product sales are recorded net of any discounts or allowances and include shipping charges.

Customers can purchase gift cards via phone or online through the Company's e-commerce website. Gift card purchases are initially recorded as unredeemed gift card liabilities and are recognized as product sales upon redemption. Historically, the majority of gift cards are redeemed within two years of issuance. The Company does not charge administrative fees on unused gift cards, and its gift cards do not have an expiration date.

Based on historical redemption patterns, a portion of issued gift cards are not expected to be redeemed (breakage). The Company uses the redemption recognition method for recognizing breakage related to unredeemed gift cards for which it has sufficient historical redemption information. Under the redemption recognition method, breakage revenue is recorded in proportion to, and over the time period gift cards are actually redeemed. The estimated breakage rate is based on historical issuance and redemption patterns and is re-assessed by the Company on a regular basis. At least three years of historical data, which is updated annually, is used to estimate redemption patterns. Breakage revenue is included in product sales and the Company recorded $17,114 and nil for the years ended December 31, 2020 and 2019, respectively (see Note 9).

Cost of Sales

The Company's policy is to recognize product related cost of sales in conjunction with revenue recognition, when the product costs are incurred which is upon delivery of product. Cost of sales includes the food and processing costs directly attributable to fulfillment and the delivery of the product to customers including both inbound and outbound shipping costs. In additional, the royalty fee related to the Joint Product Development and Distribution Agreement (see Note 13) was also included in cost of sales.

Shipping and handling costs incurred for product shipped to customers are included in cost of sales and amounted to $873,289 and $499,396 for the years ended December 31, 2020 and 2019, respectively. Shipping and handling costs charged to customers are included in product sales, net.

Stock-Based Compensation

Stock-based compensation is accounted for based on the requirements of ASC 718 – *"Compensation–Stock Compensation"*, which requires recognition in the financial statements of the cost of employee, non-employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Advertising costs

The Company participates in various advertising programs. All costs related to advertising of the Company's products are expensed in the period incurred. Advertising costs charged to operations were $226,428 and $57,067, for the years ended December 31, 2020 and 2019, respectively, and are presented on the accompanying consolidated statement of operations as selling and marketing expenses.

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Income Taxes

The Company accounts for income taxes using the liability method prescribed by ASC 740 - Income Taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes." This guidance, among other provisions, eliminates certain exceptions to existing guidance related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. This guidance also requires an entity to reflect the effect of an enacted change in tax laws or rates in its effective income tax rate in the first interim period that includes the enactment date of the new legislation, aligning the timing of recognition of the effects from enacted tax law changes on the effective income tax rate with the effects on deferred income tax assets and liabilities. Under existing guidance, an entity recognizes the effects of the enacted tax law change on the effective income tax rate in the period that includes the effective date of the tax law. ASU 2019-12 is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. On December 31, 2020, the Company early adopted ASU 2019-12 and its adoption did not have any material impact on the Company's financial statements.

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of ASC 740. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. For the year ended December 31, 2020, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Basic and Diluted Loss Per Share

Pursuant to ASC 260-10-45, basic loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the periods presented. Diluted loss per share is computed by dividing net loss by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during the period. Potentially dilutive common shares consist of common stock issuable for stock options and stock warrants (using the treasury stock method), convertible notes and common stock issuable. These common stock equivalents may be dilutive in the future.

The potentially dilutive common stock equivalents as of December 31, 2020 and 2019 were excluded from the dilutive loss per share calculation as they would be antidilutive due to the net loss. The following were the computation of diluted shares outstanding and in periods where the Company has a net loss, all dilutive securities are excluded.

	December 31, 2020	December 31, 2019
Common Stock Equivalents:		
Stock Options	60,638	—
Stock Warrants	11,278,211	—
Convertible Debt	589,704	—
Total	11,928,553	—

Concentration Risk

The Company purchased approximately 100% of its food products from two vendors during the year ended December 31, 2020 (approximately 74% and 26%) and 2019 (approximately 79% and 31%). The Company is not obligated to purchase from these vendors and, if necessary, there are other vendors from which the Company can purchase food products. As of December 31, 2020 and 2019, the Company had accounts payable balance of $0 and $2,103, respectively, to these vendors.

Recent Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on its consolidated financial statements.

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NOTE 3 – REVERSE RECAPITALIZATION OF HOME BISTRO HOLDINGS AND DISPOSAL OF THE DISCONTINUED OPERATIONS OF THE RTD BUSINESS

Home Bistro, Inc. was formed on April 9, 2013 as a Delaware corporation, under the name DineWise, LLC. On December 1, 2014, it underwent a statutory conversion filed under Section 8-265 of the Delaware Code to convert from a limited liability company to a corporation and changed its name to Home Bistro, Inc.

On September 22, 2020, Home Bistro, Inc. filed a Certificate of Conversion under Section 266 of the Delaware General Corporation Law to convert its state of domicile from Delaware to Nevada and simultaneously filed an Articles of Conversion Nevada Secretary of State for the same and changed its name from Home Bistro, Inc. (the now wholly-owned subsidiary of the Company) to Home Bistro Holdings, Inc., each effective as of September 30, 2020.

Home Bistro manufactures, packages, and sells, direct-to-consumer, gourmet meals under the Home Bistro brand and markets restaurant quality meats and seafood under the Prime Chop and Colorado Prime brands. The Company's meals are freshly prepared and packaged in its facility located in Miami, Florida. Home Bistro meals are ordered on-line and delivered to consumers in containers designed to keep the products fresh during transport. Orders for restaurant quality meats and seafood through the Company's Prime Chop and Colorado Prime brands are processed through a third-party co-packer based in North Carolina who fulfills and ships customer orders.

Agreement and Plan of Merger

On April 20, 2020, the Company, Fresh Market Merger Sub, Inc., a Delaware corporation and a newly created wholly-owned subsidiary of the Company, also referred to herein as Merger Sub, and Home Bistro, Inc., a privately-held Delaware corporation engaged in the food preparation and home-delivery business (presently known as Home Bistro Holdings, Inc., a Nevada corporation), also referred to herein also Home Bistro Holdings, entered into an Agreement and Plan of Merger, also referred to herein as the Merger Agreement, pursuant to which, among other things, Merger Sub agreed to merge with and into Home Bistro Holdings, with Home Bistro Holdings becoming a wholly-owned subsidiary of the Company and the surviving corporation in the merger, also referred to herein as the Merger. Pursuant to the terms of the Merger Agreement, Home Bistro Holdings filed a Certificate of Merger with the Nevada Secretary of State on April 20, 2020 (see Note 1).

Prior to the effective time of the Merger, the Company and certain of its existing securityholders entered into an Exchange Agreement providing for, among other things, the exchange (the "Exchange") of securities held by such securityholders for shares of common stock, as more fully detailed therein. As a result of the Exchange, all of the Company's issued and outstanding shares of Series A Preferred Stock, Series C Preferred Stock and convertible notes were converted into an aggregate of 5,405,479 shares of common stock on a fully diluted basis, consisting of 1,364,222 shares of common stock and warrants to purchase up to 4,041,258 shares of common stock (see Note 11). The 250,000 shares of Series B Preferred Stock owned by a former officer were cancelled on April 9, 2020 pursuant to a General Release Agreement (see Note 11) and 250,000 shares of Series B Preferred Stock held by a related party remained issued and outstanding as of the date of the Merger.

After the Exchange, a total of 1,899,094 shares of common stock, warrants to purchase 4,041,258 shares of common stock and 60,638 stock options were deemed issued and outstanding.

At the effective time of the Merger, and subject to the terms and conditions of the Merger Agreement, each outstanding share of common stock of Home Bistro Holdings was converted into the right to receive approximately four hundred seventy-three (473) shares of common stock. Accordingly, the aggregate shares of the Company's common stock issued in the Merger to the former securityholders of Home Bistro Holdings is 24,031,453 shares of common stock on a fully diluted basis consisting of 17,105,139 shares of common stock and warrants to purchase up to 6,926,314 shares of common stock (see Note 11).

Subsequent to the Merger, the Company had an aggregate of 30,031,501 shares of common stock issued and outstanding on a fully diluted basis consisting of 19,004,233 shares of common stock, 60,638 stock options and warrants to purchase up to 10,967,572 shares of common stock.

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On April 20, 2020, pursuant to the terms of the Merger Agreement, Roy G. Warren, Jr., Mike Edwards, and Bruce Zanca resigned as directors of the Company and Roy G. Warren, Jr. resigned as Chief Operating Officer of the Company. The resignations were not the result of any disagreement related to the Company's operations, policies, or practices. Furthermore, on April 20, 2020, Mr. Zalmi Duchman, the Chief Executive Officer of Home Bistro Holdings, Michael Finkelstein and Michael Novielli were appointed as directors of the Company. In addition, Mr. Duchman was appointed Chief Executive Officer (see Note 1).

In connection with the Merger, certain Company stockholders entered into a Lock-Up and Leak-Out Agreement with the Company pursuant to which, among other thing, such stockholders agreed to certain restrictions regarding the resale of common stock for a period of two years from the date of the Merger Agreement, as more fully detailed therein.

Additionally, on April 20, 2020, the Company and a stockholder entered into a Put Option Agreement (see Note 11), pursuant to which, among other things, the Company agreed, at the election of the stockholder, to purchase certain shares of common stock from such stockholder no sooner than two years from the date of the Put Option Agreement (the "Market Period"). Pursuant to the Put Option Agreement, in the event that the stockholder does not generate $1.3 million dollars (the "Total Investment") in gross proceeds from the sale of its shares of common stock by the second anniversary of the Put Option Agreement, then the stockholder has the right to cause the Company to purchase shares held by the stockholder at a price equal to the difference between the Total Investment and the net proceeds actually realized by the stockholder from shares of common stock sold during the Market Period and the number of shares of common stock held by the stockholder on the date the put right is exercised. The put right expires fourteen (14) days from end of the Market Period. In connection with the Put Option Agreement, the Company recorded a common stock repurchase obligation in the amount of $1.3 million, reflected in the accompanying consolidated balance sheets as a long-term liability, *Common stock repurchase obligation* (see Note 11).

Effective April 20, 2020, the Company acquired all the issued and outstanding shares of Home Bistro Holdings pursuant to the Merger Agreement and Home Bistro Holdings became a wholly owned subsidiary of the Company. As a result of the Merger, for financial statement reporting purposes, the Merger between the Company and Home Bistro Holdings has been treated as a reverse acquisition and recapitalization with Home Bistro Holdings deemed the accounting acquirer and the Company deemed the accounting acquiree in accordance with FASB Accounting Standards Codification ("ASC") Section 805-10-55. At the time of the Merger, both the Company and Home Bistro Holdings had their own separate operating segments. Accordingly, the assets and liabilities and the historical operations that are reflected in the consolidated financial statements after the Merger are those of Home Bistro Holdings and are recorded at the historical cost basis of Home Bistro Holdings. The acquisition process utilizes the capital structure of the Company and the assets and liabilities of Home Bistro Holdings which are recorded at historical cost. The results of operations of the Company are consolidated with results of operations of Home Bistro Holdings starting on the date of the Merger Agreement. The equity of the consolidated entity is the historical equity of Home Bistro Holdings retroactively restated to reflect the number of shares deemed issued by the Company in the reverse acquisition.

The Merger constituted a change of control and the majority of the Board of Directors changed with the consummation of the Merger. The Company issued to the stockholders of Home Bistro Holdings shares of common stock and stock warrants which represented approximately 80% of the combined company on a fully converted basis after the closing of the Merger. As a result of the above transactions and the Company's intent to dispose or divest the assets and liabilities associated with the RTD Business as discussed below, this transaction was accounted for as a reverse recapitalization of Home Bistro Holdings where Home Bistro Holdings is considered the historical registrant and the historical operations presented will be those of Home Bistro Holdings.

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The following assets and liabilities were assumed in the Merger:

Cash	$ 4,917
Prepaid expense	9,776
Operating right-of-use asset	32,444
Total assets acquired	47,137
Accounts payable and accrued expenses	(209,417)
Operating right-of-use liability	(32,444)
Total liabilities assumed	$ (241,861)
Net liability assumed	$ (194,724)

Disposal of Discontinued Operations of the RTD Business

On September 25, 2020, pursuant to the Asset Purchase Agreement, among other things, the Company agreed to sell all of the Company's business, assets and properties used, or held or developed for use, in its functional RTD (Ready to Drink) beverage segment (the "RTD Business"), and the Buyer agreed to assume certain debts, obligations and liabilities related to the RTD Business. The Company assumed an accounts payable liability in the amount of $14,000 related to accounting expense of the RTD Business for a period prior to the Merger. Pursuant to the Asset Purchase Agreement, the Buyer reimbursed the Company for accounting expenses in amount of $14,000 incurred prior to the Merger, of which $7,000 was payable in cash and the balance in form of a promissory note dated September 25, 2020 in the amount of $7,000. The promissory note bears interest at a rate of 5% per annum, matures on April 25, 2021 and is payable in monthly installments of $1,000 commencing on October 25, 2020 through April 25, 2021. As of December 31, 2020, $5,000 remained due on the promissory note. The Company received the $7,000 cash portion of the consideration as of December 31, 2020. The $14,000 reimbursement was recorded to additional paid in capital as reflected in the accompanying consolidated statements of changes in stockholders' deficit.

ASC 205-20 "Discontinued Operations" establishes that the disposal or abandonment of a component of an entity or a group of components of an entity should be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. As a result, the component's results of operations have been classified as discontinued operations on a retrospective basis for all periods presented. The results of operations of this component, for all periods, are separately reported as "discontinued operations" on the consolidated statements of operations.

The Asset Purchase Agreement, discussed above under *Agreement and Plan of Merger*, was intended to be part of the Merger and in effect transferred the RTD Business and the related assets and liabilities to Gratitude Keto, whose CEO, Roy Warren Jr., formerly served as the Company's director and Chief Operating Officer and was considered a related party, in substance, in the accounting of this transaction. Therefore, the disposal of net liabilities and the reimbursement discussed above in connection with the disposal of the RTD Business was recorded to additional paid in capital as reflected in the accompanying consolidated statements of changes in stockholders' deficit.

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The following table set forth the selected financial data of the net liabilities recorded to additional paid in capital as of September 24, 2020.

	September 24, 2020
Assets:	
Other assets:	
Operating lease right-of-use assets, net	$ 2,417
Total assets	$ 2,417
Liabilities:	
Current liabilities:	
Accounts payable	$ 112,212
Accrued expenses and other liabilities	5,009
Operating lease liabilities, current portion	2,417
Total current liabilities	119,638
Total liabilities	$ 119,638
Net liabilities	$ 117,221
Expense reimbursement by Buyer	14,000
Disposal of net liabilities to a related party	$ 131,221

The summarized operating result of discontinued operations of the RTD Business included in the Company's consolidated statements of operations for the year ended December 31, 2020 is as follows:

	Year Ended December 31, 2020
Revenues	
Cost of revenues	$ —
Gross (loss) profit	—
	—
Operating expenses:	
Compensation expense	5,511
Professional and consulting expenses	26,606
Selling and marketing expenses	(7,850)
General and administrative expenses	37,255
Total operating expenses	61,522
Loss from operations	$ 61,522
Gain on debt extinguishment	99,897
Interest income (expense)	(172)
Other income, net	99,725
Income from discontinued operations	$ 38,203

The gain on debt extinguishment in the amount of $99,897 reflected above was due to the settlement of outstanding liabilities owed to a vendor in connection with the RTD Business.

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NOTE 4 – CONVERTIBLE NOTES

At December 31, 2020, the convertible debt consisted of the following:

	December 31, 2020
Principal amount	$ 447,000
Less: debt discount	(305,524)
Convertible notes payable balance	$ 141,476

December 2020 Financings:

On December 18, 2020, the Company entered a Securities Purchase Agreement (the "December 2020 SPA I") with an investor for the sale of the Company's convertible note. Pursuant to the December 2020 SPA I, among other things, (i) the Company issued a self-amortization promissory note (the "December 2020 Note I", and together with the December 2020 SPA I, the "December 2020 Agreements I") in the aggregate principal amount of $275,000, and (ii) issued a total of 75,546 shares of common stock, as a commitment fee and 183,866 shares (the "Second Commitment Shares") issued as a returnable commitment fee. Accordingly, the Company deems the Second Commitment Shares as unissued shares for accounting purposes. The 75,546 shares of common stock were recorded as a debt discount of $23,546 based on the relative fair value method. Pursuant to the December 2020 Note I, the Company received net proceeds of $234,100, net of $27,500 OID and $13,400 of issuance costs. The December 2020 Note I bears an interest rate of 12% per annum (which interest rate shall be increased to 16% per annum upon the occurrence of an Event of Default (as defined in the December 2020 Note I)) and shall mature on December 18, 2021. The investor has the right, only upon the occurrence of an Event of Default, to convert all or any portion of the then outstanding and unpaid principal amount and interest thereon (including any default interest) into shares of common stock equal to the lesser of (i) 105% multiplied by the closing bid price of the common stock on the trading day immediately preceding the issue date ($1.04) or (ii) the closing bid price of the common stock on the trading day immediately preceding the date of the respective conversion (the "Conversion Price"), subject to certain percentage of ownership limitations. The Second Commitment Shares must be returned to the Company's treasury if the December 2020 Note I is fully repaid and satisfied on or prior to the maturity date, the. Upon the occurrence and during the continuation of any Event of Default (as defined in December 2020 Note I), the investor is no longer required to return the Second Commitment Shares to the Company and the December 2020 Note I becomes immediately due and payable thereunder in the amount equal to the principal amount then outstanding plus accrued interest (including any default interest) through the date of full repayment multiplied by 125%. The obligations of the Company under the December 2020 Note I rank senior with respect to any and all unsecured indebtedness incurred following the issue date except with respect to the Company's current and future indebtedness with Shopify and any further loans that may be received pursuant to the CARES Act and the SBA's Economic Injury Disaster loan program. Further, the December 2020 Note I contain standard anti-dilution provisions and price protections provisions in the event that the Company issues securities for a price per share less than the Conversion Price. The December 2020 Agreements I contain other provisions, covenants, and restrictions common with this type of debt transaction. Furthermore, the Company is subject to certain negative covenants under the December 2020 Agreements I, which the Company also believes are customary for transactions of this type. The December 2020 SPA I also provides the investor with certain "piggyback" registration rights, permitting them to request that the Company include the issued shares for sale in certain registration statements filed by the Company under the Securities Act of 1934, as amended. As of December 31, 2020, the December 2020 Note I had outstanding principal and accrued interest of $275,000 and $1,175, respectively.

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On December 28, 2020, the Company entered into a Securities Purchase Agreement (the "December 2020 SPA II") with an investor for the sale of the Company's convertible note. Pursuant to the SPA II, among other things, (i) the Company issued a self-amortization promissory note (the "December 2020 Note II", and together with the December 2020 SPA II, the "December 2020 Agreements II") in the aggregate principal amount of $172,000, and (ii) issued 45,989 shares of common stock as a commitment fee and 114,667 shares (the "Second Commitment Shares") issued as a returnable commitment fee. Accordingly, the Company deems the Second Commitment Shares as unissued shares for accounting purposes. The 45,989 shares of common stock issued were recorded as a debt discount of $14,720 based on the relative fair value method. Pursuant to the December 2020 Note II, the Company received net proceeds of $150,000, net of $15,500 OID and $6,500 of issuance costs. The December 2020 Note II bears an interest rate of 12% per annum (which interest rate shall be increased to 16% per annum upon the occurrence of an Event of Default (as defined in the December 2020 Note II)) and shall mature on December 28, 2021. The investor has the right, only upon the occurrence of an Event of Default, to convert all or any portion of the then outstanding and unpaid principal amount and interest thereon (including any default interest) into shares of common stock equal to the lesser of (i) 105% multiplied by the closing bid price of the common stock on the trading day immediately preceding the issue date ($1.00) or (ii) the closing bid price of the common stock on the trading day immediately preceding the date of the respective conversion (the "Conversion Price"), subject to certain percentage of ownership limitations. The Second Commitment Shares must be returned to the Company's treasury if the December 2020 Note II is fully repaid and satisfied on or prior to the maturity date, the. Upon the occurrence and during the continuation of any Event of Default (as defined in the December 2020 Note II), the investor is no longer required to return the Second Commitment Shares to the Company and the December 2020 Note II becomes immediately due and payable thereunder in the amount equal to the principal amount then outstanding plus accrued interest (including any default interest) through the date of full repayment multiplied by 125%. The obligations of the Company under the December 2020 Note II rank senior with respect to any and all unsecured indebtedness incurred following the issue date except with respect to the Company's current and future indebtedness with Shopify and any further loans that may be received pursuant to the CARES Act and the SBA's Economic Injury Disaster loan program. Further, the December 2020 Note II contain standard anti-dilution provisions and price protections provisions in the event that the Company issues securities for a price per share less than the Conversion Price. The December 2020 Agreements II contain other provisions, covenants, and restrictions common with this type of debt transaction. Furthermore, the Company is subject to certain negative covenants under the December 2020 Agreements II, which the Company also believes are also customary for transactions of this type. The December 2020 SPA II also provides the investor with certain "piggyback" registration rights, permitting them to request that the Company include the issued shares for sale in certain registration statements filed by the Company under the Securities Act of 1934, as amended. As of December 31, 2020, the December 2020 Note II had outstanding principal and accrued interest of $172,000 and $0, respectively.

The Company also entered into a Registration Rights Agreement ("Registration Agreement") in connection with the December 2020 Agreements II (see Note 13). Pursuant to which the Company is required to prepare and file with the SEC a Registration Statement or Registration Statements (as is necessary) covering the resale of all of the Registrable Securities, which Registration Statement(s) shall state that, in accordance with Rule 415 promulgated under the Securities Act, such Registration Statement also covers such indeterminate number of additional shares of Securities as may become issuable upon stock splits, stock dividends or similar transactions. The Company shall initially register for resale all of the Registerable Securities, or an amount equal to the maximum amount allowed under Rule 415 (a)(1)(i) as interpreted by the SEC. In the event the Company cannot register sufficient shares of Securities, due to the remaining number of authorized shares of Securities being insufficient, the Company will use its best efforts to register the maximum number of shares it can base on the remaining balance of authorized shares and will use its best efforts to increase the number of its authorized shares as soon as reasonably practicable.

The Company shall use its best efforts to have the Registration Statement filed with the SEC within 60 or 120 days following the closing date of the December 2020 Agreements II (collectively as "Filing Deadline"). The Company shall pay the holder the sum of 1% of the purchase amount of the December 2020 Note II as liquidated damages, and not as a penalty for each time it fails to meet the Filing Deadline. The liquidated damages set forth in the Registration Agreement shall be paid, at the holder's option, in cash or securities priced at the share price, or portion thereof. Failure of the Company to make payment within five business days of the Filing Date shall be considered a breach of the Registration Agreement.

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Derivative Liabilities Pursuant to Convertible Notes

In connection with the issuance of the December 2020 Note I and II (collectively referred to as "Notes"), the Company determined that the terms of the Notes contain an embedded conversion option to be accounted for as derivative liabilities due to the holder having the potential to gain value upon an event of default, which includes events not within the control of the Company. Accordingly, under the provisions of ASC 815-40 –*Derivatives and Hedging – Contracts in an Entity's Own Stock*, the embedded conversion option contained in the convertible instruments were accounted for as derivative liabilities at the date of issuance and shall be adjusted to fair value through earnings at each reporting date. The fair value of the embedded conversion options was determined using the Binomial valuation model. At the end of each period and on note conversion date, the Company revalues the derivative liabilities resulting from the embedded option.

During year ended December 31, 2020, in connection with the issuance of the December 2020 Note I and Note II, on the initial measurement date, the fair values of the embedded conversion option of $212,344 was recorded as derivative liabilities and debt discount. Additionally, the Company accounted for the 119,535 commitment shares issued by using the relative fair value method and recorded $38,263 of a debt discount which will be amortized over the term of the Notes (see Note 11).

At the end of the period, the Company revalued the embedded conversion option derivative liabilities. In connection with these revaluations, the Company recorded a gain from the change in the derivative liabilities fair value of $32,315 for the year ended December 31, 2020.

During the year ended December 31, 2020, the fair value of the derivative liabilities was estimated at issuance and at December 31, 2020, using the Binomial valuation model with the following assumptions:

	2020
Dividend rate	—%
Term (in years)	1 year
Volatility	138 - 139%
Risk—free interest rate	0.09 to 0.12%

For the year ended December 31, 2020, amortization of debt discounts related to this convertible note amounted to $7,983 included in interest expense on the accompanying consolidated statements of operations. At December 31, 2020, unamortized debt discount was $305,524.

NOTE 5 – NOTE PAYABLE – IN DEFAULT

On July 3, 2015, the Company entered into a promissory note payable with a principal amount of $33,000. The note bore interest at a rate of 5% per year and had a maturity date of September 1, 2016. During the year ended December 31, 2018, the Company repaid $18,000 of outstanding principal. In 2019, the Company paid $11,262 of the outstanding principal balance and $3,738 remained unpaid and was classified as Note Payable – In default on the accompanying December 31, 2019 balance sheet. During the year ended December 31, 2020, the Company paid the outstanding principal balance of the note payable in full and there was no balance outstanding as of December 31, 2020.

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NOTE 6 - NOTES PAYABLE

Notes payable is summarized below:

	December 31, 2020
Principal amount	$ 171,612
Less: current portion	(20,068)
Notes payable - long term portion	$ 151,544

Minimum principal payments under notes payable are as follows:

Year ended December 31, 2021	$ 20,068
Year ended December 31, 2022	6,350
Year ended December 31, 2023	3,185
Year ended December 31, 2024	3,307
Year ended December 31, 2025	3,433
Thereafter	135,269
Total principal payments	$ 171,612

Paycheck Protection Program Loan

On April 8, 2020, the Company received federal funding in the amount of $14,612 through the Paycheck Protection Program (the "PPP") of the CARES Act, administered by the U.S. Small Business Administration ("SBA"). The PPP note bears an interest rate 0.98% per annum and accrues on the unpaid principal balance computed on the basis of the actual number of days elapsed in a year of 360 days. Commencing six months after the effective date of the PPP note, the Company is required to pay the lender equal monthly payments of principal and interest as required to fully amortize any unforgiven principal balance of the loan by the two-year anniversary of the effective date of the PPP note (the "Maturity Date"). The Maturity Date can be extended to five years if mutually agreed upon by both the lender and the Company. The PPP note contains customary events of default relating to, among other things, payment defaults, making materially false or misleading representations to the SBA or the lender, or breaching the terms of the PPP note. The occurrence of an event of default may result in the repayment of all amounts outstanding under the PPP note, collection of all amounts owing from the Company, or filing suit and obtaining judgment against the Company. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. Recent modifications to the PPP by the U.S. Treasury and Congress have extended the time period for loan forgiveness beyond the original eight-week period, making it possible for the Company to apply for forgiveness of its PPP note. No assurance can be given that the Company will be successful in obtaining forgiveness of the loan in whole or in part. As of December 31, 2020, the PPP note had an outstanding principal balance of $14,612 and accrued interest of $106, reflected in the accompanying balance sheets under accrued expense and other liabilities.

Economic Injury Disaster Loan

On June 17, 2020, the Company entered into a Loan Authorization and Agreement ("SBA Loan Agreement") with the SBA, under the SBA's Economic Injury Disaster Loan assistance program in light of the impact of the COVID-19 pandemic. Pursuant to the SBA Loan Agreement, the Company received an advanced of $150,000, to be used for working capital purposes only. Pursuant to the SBA Loan Agreement, the Company executed; (i) a note for the benefit of the SBA ("SBA Note"), which contains customary events of default; and (ii) a Security Agreement, granting the SBA a security interest in all tangible and intangible personal property of the Company, which also contains customary events of default. The SBA Note bears an interest rate of 3.75% per annum which accrue from the date of the advance. Installment payments, including principal and interest, are due monthly beginning June 17, 2021 (twelve months from the date of the SBA Note) in the amount of $731. The balance of principal and interest is payable thirty years from the date of the SBA Note. As of December 31, 2020, the SBA Note had an outstanding principal balance of $150,000 and accrued interest of $3,036, reflected in the accompanying balance sheets under accrued expense and other liabilities.

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On June 26, 2020, in connection SBA Loan Agreement, the Company received a grant that does not have to be repaid, in the amount of $5,000. It was recorded as other income in the accompanying consolidated statement of operations.

November Note Payable

On November 12, 2020, the Company entered into a Note Agreement with an investor for the sale of the Company's note (the "Note"). Pursuant to the terms provided for in the Note Agreement, the Company issued to the investor a Note and the Company received proceeds in the amount of $7,000. The Note bears an interest of 5% per annum and matures on November 12, 2021. The Company may prepay all or any portion of the interest and the unpaid principal balance of this Note at any time, or from time to time, without penalty or premium. As of December 31, 2020, the Note had an outstanding principal balance of $7,000 and accrued interest of $47, reflected in the accompanying balance sheets under accrued expense and other liabilities.

NOTE 7 – ADVANCE PAYABLE

On October 15, 2019, the Company entered into a capital advance agreement (the "First Advance Agreement") with their e-commerce platform provider ("Shopify"). Under the terms of the First Advance Agreement, the Company received $23,000 of principal and will repay $25,999 by remitting 17% of the total customer payments processed daily by the e-commerce platform provider until the advance is repaid in full. As of December 31, 2019, the advance had an outstanding principal balance of $18,192. During the year ended December 31, 2020, the Company paid the principal balance of the advance in full and there was no balance outstanding as of December 31, 2020.

On March 17, 2020, the Company entered into a capital advance agreement (the "Second Advance Agreement") with Shopify. Under the terms of the Second Advance Agreement, the Company received $10,000 of principal and will repay $11,300 by remitting 17% of the total customer payments processed daily by the e-commerce platform provider until the advance is repaid in full. During the year ended December 31, 2020, the Company paid the advance in full and there was no balance outstanding as of December 31, 2020.

On August 5, 2020, the Company entered into a capital advance agreement (the "Third Advance Agreement") with Shopify. Under the terms of the Third Advance Agreement, the Company has received $49,000 of principal and will repay $55,370 by remitting 17% of the total customer payments processed daily by the e-commerce platform provider until the advance is repaid in full. During the year ended December 31, 2020, the Company paid $47,328 of the principal balance and the advance had an outstanding balance $1,672 as of December 31, 2020 presented as advance payable on the accompanying consolidated balance sheets.

On November 17, 2020, the Company entered into a capital advance agreement (the "Fourth Advance Agreement") with Shopify. Under the terms of the Fourth Advance Agreement, the Company has received $63,000 of principal and will repay $71,190 by remitting 17% of the total customer payments processed daily by the e-commerce platform provider until the advance is repaid in full. As of December 31, 2020, the entire principal balance of $63,000 remained outstanding and is presented as advances payable on the accompanying consolidated balance sheets.

On December 10, 2020, the Company entered into a working capital agreement (the "First PayPal Advance Agreement") with PayPal. Under the terms of the Fifth Advance Agreement, the Company received net proceeds of $17,000, net of $1,840 loan fee for a total principal amount of $18,840. and will repay the principal and by remitting The Company shall pay a minimum payment every 90-days beginning at the end of the Cancellation Period and ending when the Total Payment Amount has been delivered to Lender. The minimum payment is due in each 90-day period, irrespective of the amount paid in any previous 90-day period. The minimum payment is 5% of the principal amount for loans expected to be repaid in 12 months or more and 10% of the principal amount for loans expected to be repaid in less than 12 months (based on the Company's account history). During the year ended December 31, 2020, the Company paid $5,015 of the principal balance and the advance had an outstanding balance $13,825 as of December 31, 2020 presented as advance payable on the accompanying consolidated balance sheets.

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NOTE 8 – OPERATING LEASE RIGHT-OF-USE ASSETS AND LIABILITIES

Operating lease right-of-use (ROU) and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value is an incremental borrowing rate, estimated to be 10%, as the interest rate implicit in most of our leases is not readily determinable. Operating lease expense is recognized on a straight-line basis over the lease term. During the Year ended December 31, 2020 and 2019, the Company recorded $4,601 and $0, respectively, as operating lease expense which is included the income from disposal of discontinued operations on the statements of operations.

On the date of the Merger, the Company had an operating lease for its office and a copier. On June 30, 2020, the Company and the lessor (collectively as "Parties") entered into an Office Lease Termination Agreement (the "Termination Agreement") whereby the Parties agreed to terminate the lease and settle all claims and to extinguish all rights and claims arising out of the lease agreement entered into in April 2018. Pursuant to the Termination Agreement, the Parties agreed for the lessor to retain the deposit in the amount of $6,828 to settle all remaining claims. As of December 31, 2020, the Company had no remaining lease obligations towards the lease. At termination, the Company removed the remaining ROU asset and liability of $25,426.

The equipment lease agreement for a copier expires March 27, 2022 and requires monthly payments of $145 with an option to purchase the equipment at fair market value at the end of the lease term. Pursuant to the disposal of discontinued operations discussed in Note 3, the ROU asset and liability related to the equipment lease was assumed by Gratitude Keto., a related party, pursuant to the Asset Purchase Agreement between the Company and Gratitude Keto. As of December 31, 2020, the Company had no remaining lease obligations towards the lease. Upon the closing of the Asset Purchase Agreement, the Company removed the remaining ROU asset and liability of $2,417.

Right-of-use assets are summarized below:

	December 31, 2020
Office lease	$ 29,417
Equipment lease (remaining lease term of 21 months)	3,027
Subtotal	32,444
Less accumulated amortization	(4,601)
Adjustment in connection with the termination of lease	(25,426)
Adjustment in connection with the disposal of discontinued operations	(2,417)
Right-of-use assets, net	$ —

Operating Lease liabilities are summarized below:

	December 31, 2020
Office lease	$ 29,417
Equipment lease	3,027
Subtotal	32,444
Reduction of lease liability	(4,601)
Adjustment in connection with the termination of lease	(25,426)
Adjustment in connection with the disposal of discontinued operations	(2,417)
Right-of-use liability, net	$ —

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NOTE 9 – UNREDEEMED GIFT CARDS

Unredeemed gift cards activities as of December 31, 2020 and 2019 are summarized as follows:

	December 31,	
	2020	2019
Beginning balance	$ 10,365	$ 9,966
Sale of gift cards	99,322	26,217
Revenue from breakage	(17,114)	—
Total gift card redemptions	(44,262)	(25,818)
Ending balance	$ 48,311	$ 10,365

NOTE 10 – RELATED PARTY TRANSACTIONS

The Company utilizes the shipping carrier account of a related entity, owned 50% by the Company's current chief executive officer and principal stockholder for its inbound and outbound shipping needs. The related entity bills the Company for the direct cost of the shipping charges plus a 10% fee. The total amount paid to the related entity during the years ended December 31, 2020 and 2019 were $117,310 and $72,077, respectively, which is included in cost of goods sold on the statement of operations.

See also disposal of the RTD Business with related party in *Note 3* – *Acquisition of Home Bistro Holdings and Disposal of the Discontinued Operations of the RTD Business.*

NOTE 11 – STOCKHOLDERS' DEFICIT

On September 14, 2020, the Company filed with the Secretary of State of the State of Nevada a Certificate of Amendment to its Articles of Incorporation to effect a 1 for 31.993 reverse stock split of its common stock. Proportional adjustments for the reverse stock split were made to the Company's outstanding stock options, stock warrants and equity incentive plans. All share and per-share data and amounts have been retroactively adjusted as of the earliest period presented in the consolidated financial statements to reflect the reverse stock split (see Note 1 and Note 3).

Shares Authorized

On April 7, 2020, the Board of Directors of the Company approved the increase of the authorized shares of the common stock to 1,000,000,000 from 600,000,000 (see Note 1).

Stocks Issued Pursuant to Recapitalization

On April 20, 2020, as a result of the closing of the Share Exchange Agreement with Home Bistro Holdings (see Note 3), the equity of the consolidated entity is the historical equity of Home Bistro Holdings retroactively restated to reflect the number of shares issued by the Company in the reverse recapitalization and to reflect the reverse stock split.

As a result, in connection with the Exchange Agreement and Merger (see Note 3), the Company was deemed to have issued a total of 250,000 shares of Series B Convertible Preferred Stock, 1,899,094 shares of common stock.

Preferred Stock

On September 25, 2020, in connection with the Asset Purchase Agreement between the Company and Gratitude Keto, the Company repurchased the 250,000 shares of Series B Preferred Stock (see above *Stocks Issued Pursuant to Recapitalization*) held by a stockholder (see Note 1 and Note 3).

As of December 31, 2020, there were no outstanding shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock (see above *Stocks Issued Pursuant to Recapitalization*).

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Common Stock

Common stock for commitment fee with convertible notes payable

- In December 2020, the Company issued an aggregate of 119,535 shares of common stock valued at $38,263 using the relative fair value method to two non-affiliate investors as commitment fee in connection with the December 2020 Financings (see Note 4) which was recorded as debt discount which will be amortized over the life of the Notes. The Company did not issue any common stock as commitment fee during the year ended December 31, 2019.

Stock-based compensation

- During the year ended December 31, 2020 and 2019, the Company recorded stock-based compensation of $213,841 and $183,294, respectively, related to common stock issued to an executive pursuant to an employment agreement (see Note 11) and which was recorded as compensation and related expenses in the accompanying statements of operations. As of December 31, 2020, there was no unamortized compensation expense related to these common shares.

- During the year ended December 31, 2020, the Company recorded stock-based compensation of $238,268 related to an aggregate of 4,000,577 shares of common stock issued to employees and various consultants, of which $102,332 was charged as compensation and related expenses, $124,219 as professional and consulting expenses and $11,717 as selling and marketing expenses in the accompanying consolidated statements of operations. The stock-based compensation was based on the fair value of common stock on the date of grant based on recent sales of common stock. In addition, the Company issued a warrant to purchase up to 300,000 shares of the Company's common stock with grant date fair value of $360,000 for product development services pursuant to an agreement (see below under *Warrants*).

Stock Options

A summary of the Company's outstanding stock options as of December 31, 2020 and changes during the period ended are presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance on December 31, 2019	—	$ —	—	$ —
Deemed issued in connection with the Company's recapitalization (see Note 3)	60,638	$ 3.20	0.03	—
Balance on December 31, 2020	60,638	$ 3.20	0.03	$ —

Stock Warrants

On April 20, 2020, pursuant to the Merger (see Note 3), the Company issued warrants to purchase up to 4,041,258 shares of common stock with exercise price of $0.032 per share (in whole or in part) and expiration date of April 20, 2030 (see above *Stocks Issued Pursuant to Recapitalization*), in exchange for certain outstanding shares of the Company's common stock on the date of the Merger.

On April 20, 2020, pursuant to the Exchange Agreement (see Note 3), the Company issued warrants to purchase up to 6,926,314 shares of common stock with an exercise price of $0.032 per share (in whole or in part) and expiration date of April 20, 2030 in exchange for certain outstanding common stock shares of Home Bistro Holdings on the date of the Merger, of which the Company had received $100,005 in total proceeds prior to the Merger in exchange for shares of Home Bistro Holdings common stock.

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On September 22, 2020, the Company issued a warrant to purchase up to 300,000 shares of the Company's common stock to a third-party entity in connection with the Joint Product Development and Distribution Agreement (see Note 13). This warrant is exercisable, in whole or in part, upon issuance at $0.001 per share, and expires on September 22, 2030. This warrant has a grant date fair value of $360,000 recorded as product development expense at issuance on the consolidated statements of operations.

On December 18, 2020, the Company issued warrants to purchase up to 10,640 shares of the Company's common stock to a third-party entity in connection with a consulting agreement. This warrant is exercisable, in whole or in part, upon issuance at $1.27 per share, and expires on December 18, 2025. These warrants have a grant date fair value of $11,471, recorded as consulting fee on the consolidated statements of operations.

The Company used the Binomial pricing model to determine the fair value of its stock options which requires the Company to make several key judgments including:

- the expected life of issued stock warrants;
- the expected volatility of the Company's stock price;
- the expected dividend yields to be realized over the life of the stock warrants; and
- the risk-free interest rate over the expected life of the stock warrants.

The Company's computation of the expected life of issued stock warrants was based on the simplified method as the Company does not have adequate exercise experience to determine the expected term and was estimated to be 2 years. The interest rate was based on the U.S. Treasury yield curve in effect at the time of grant. The computation of volatility was based on the historical volatility of the Company's common stock and the Company's expected divided yield was estimated to be zero.

Dividend rate	—%
Term (in years)	5 to 10 years
Volatility	139%
Risk-free interest rate	0.39% to 0.68%

A summary of the Company's outstanding stock warrants as of December 31, 2020 and changes during the period ended are presented below:

	Number of Stock Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance on December 31, 2019	—	$ —	—
Deemed issued in connection with the Company's recapitalization (see Note 3)	4,041,258	0.032	9.31
Issued pursuant to Exchange Agreement (see Note 3)	6,926,314	0.032	9.31
Granted	310,640	0.044	9.57
Balance on December 31, 2020	11,278,212	$ 0.032	9.31
Stock warrants exercisable on December 31, 2020	11,278,212	$ 0.032	9.31
Weighted average fair value of stock warrants granted during the period		$ 0.044	

The exercisable stock warrants had an intrinsic value of $9,564,277 on December 31, 2020.

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NOTE 12– INCOME TAXES

The Company maintains deferred tax assets and liabilities that 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. The deferred tax assets on December 31, 2020 and 2019 consist of net operating loss carryforwards. The net deferred tax asset has been fully offset by a valuation allowance because of the uncertainty of the attainment of future taxable income.

The items accounting for the difference between income taxes at the effective statutory rate and the provision for income taxes for the years ended December 31, 2020 and 2019 are as follow:

	Years Ended December 31,	
	2020	2019
Income tax benefit at U.S. statutory rate of 21%	$ (260,749)	$ (41,803)
Income tax benefit – state	(108,025)	(17,318)
Non-deductible expenses	223,929	48,953
Change in valuation allowance	144,845	10,168
Total provision for income tax	$ —	$ —

The Company's approximate net deferred tax asset as of December 31, 2020 and 2019 was as follow:

	Years Ended December 31,	
	2020	2019
Net operating loss carryforward	$ 1,210,697	$ 1,065,852
Total deferred tax asset	1,210,697	1,065,852
Less: valuation allowance	(1,210,697)	(1,065,852)
Net deferred tax asset	$ —	$ —

The gross operating loss carryforward available to the Company was $4,076,418 at December 31, 2020. The Company provided a full valuation allowance equal to the net deferred income tax asset as of December 31, 2020 and 2019 because it was not known whether future taxable income will be sufficient to utilize the loss carryforward. Additionally, the future utilization of the net operating loss carryforward to offset future taxable income is subject to annual limitations as a result of ownership or business changes that occurred prior to 2020 and may occur in the future. The Company has not conducted a study to determine the limitations on the utilization of these net operating loss carryforwards.

The increase in the valuation allowance was $144,845 in 2020. The total net loss carryforward on December 31, 2020 is $1,210,697. The potential tax benefit arising from the net operating loss carryforward of $1,055,538 generated prior to January 1, 2018 will expire in 2033. The potential tax benefit arising from the net operating loss carryforward of $155,159 generated from January 1, 2018 thereon can be carried forward indefinitely within the annual usage limitations.

The Company does not have any uncertain tax positions or events leading to uncertainty in a tax position. The Company's 2020, 2019 and 2018 Corporate Income Tax Returns are subject to Internal Revenue Service examination.

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NOTE 13 – COMMITMENTS AND CONTINGENCIES

Employment Agreements

On February 20, 2018, the Home Bistro Holdings entered into an employment agreement (the "Employment Agreement") with Zalmi Scher Duchman to serve as the Company's Chief Executive Officer, the term of which runs for three years includes an annual salary of $1.00 for the first year which shall be increased in the second and third year of employment to an amount mutually approved by Mr. Duchman and the Company's Board of Directors. Thereafter, the Employment Agreement shall be renewed upon the mutual agreement of Mr. Duchman and Company. In connection with this Employment Agreement, the Company issued 7,643,239 (retroactively restated to reflect shares issued in Merger and post reverse stock split) shares of restricted common stock with a grant date fair value of $549,882, as a sign-on bonus (see Note 11). The Company shall have the right and option to repurchase the stock at par value of $0.001 if Mr. Duchman is terminated for cause; (i) all of the shares shall be eligible for stock repurchase if terminated for cause within the first year; (ii) 2/3 of the shares shall be eligible for stock repurchase terminated for cause within the second year and; (iii) 1/3 of the shares shall be eligible for stock repurchase terminated for cause within the third year. As a result of the Merger (see Note 3) all these shares of common stock fully vested on the date of Merger and any unamortized deferred compensation was expensed during the year ended December 31, 2020 (see Note 11).

Lease Obligation Settlement

On February 22, 2018, the Company entered into a Surrender Agreement with a former landlord for rental obligations dating back to the year ended December 31, 2017 until the space was vacated by the Company on March 31, 2017. Upon executing the Surrender Agreement, the former landlord and the Company agreed that the total rental obligation due was $109,235. The former landlord agreed to $50,000 as full satisfaction of all obligations owed at the time of the Surrender Agreement. The Company agreed to make regular payments on the outstanding rental obligation until paid in full through September 2019; however, there is no penalty if the obligation is not fully paid by such date. As of December 31, 2020 and 2019, the balance remaining due on this obligation were $26,400 and $30,700, respectively, included in accounts payable on the accompanying consolidated balance sheets.

Put Option Agreement

On April 20, 2020, the Company and a stockholder entered into a Put Option Agreement (see Note 3), pursuant to which, among other things, the Company agreed, at the election of the stockholder, to purchase certain shares of common stock from such stockholder no sooner than two years from the date of the Put Option Agreement also referred to herein as Market Period. Pursuant to the Put Option Agreement, in the event that the stockholder does not generate $1.3 million dollars also referred to herein as Total Investment in gross proceeds from the sale of its shares of common stock by the second anniversary of the Put Option Agreement, then the stockholder has the right to cause the Company to purchase shares held by the stockholder at a price equal to the difference between the Total Investment and the net proceeds actually realized by the stockholder from shares of common stock sold during the Market Period and the number of shares of common stock held by the stockholder on the date the put right is exercised. The put right expires fourteen (14) days from end of the Market Period. In connection with the Put Option Agreement, the Company recorded a common stock repurchase obligation in the amount of $1.3 million, reflected in the accompanying consolidated balance sheets as a long-term liability, *Common stock repurchase obligation*. The repurchase obligation is re-assessed by the Company each reporting period and adjusted for the proceeds received by the stockholder from sale of common stock. As of December 31, 2020, the Company had $1.3 million of common stock repurchase obligation outstanding.

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Joint Product Development and Distribution Agreement

On September 22, 2020, the Company and Corlich Enterprises, Inc., a New Jersey corporation ("Corlich") entered into a Joint Product Development and Distribution Agreement (the "Development Agreement"), effective the same date, pursuant to which, among other things, Corlich agreed to provide certain commercial services (the "Services") of Cat Cora, an American professional chef, in order for the Company and Corlich to collaboratively develop a brand of meals (the "Cat Cora Meals"). In consideration for the Services, the Company agreed to (i) pay Corlich a royalty on net revenues generated from (A) the Cat Cora Meals, and (B) Home Bistro and Prime Chop brand orders where a dedicated code is used at purchase, and (ii) issue a warrant to purchase up to 300,000 shares of common stock (see Note 11). The Development Agreement has a three-year term, unless sooner terminated pursuant to its terms.

During the first year of the Development Agreement's term, Corlich is guaranteed a minimum royalty payment of $109,210. For the second and third year of the Development Agreement's term, the Development Agreement estimates that Corlich will be guaranteed a minimum royalty payment of $218,380 and $436,770, respectively, subject to the achievement of the prior year's guaranteed minimum royalty payment and the parties' agreement to negotiate in good faith a lower guaranteed minimum royalty if such guaranteed minimum royalty payment is not achieved or to otherwise terminate the Development Agreement. Royalties above the guaranteed minimum royalty are based on an increasing percentage of net revenues generated from the sale of Cat Cora Meals as certain revenue milestones are met as defined in the Distribution Agreement. Royalties will be accrued over the term of the Development Agreement and $36,403 of royalty fee was accrued during the period ended December 31, 2020 and included in cost of sales in the accompanying consolidated statement of operations.

Extinguishment of Accounts Payable

The Company settled certain accounts payable and recognized gain on extinguishment of accounts payable of $7,075 and $18,470 during the years ended December 31, 2020 and 2019, respectively.

Registration Rights Agreement

The Company also entered into a Registration Rights Agreement ("Registration Agreement") in connection with the December 2020 Agreements II (see Note 4). Pursuant to which the Company is required to prepare and file with the SEC a Registration Statement or Registration Statements (as is necessary) covering the resale of all of the Registrable Securities, which Registration Statement(s) shall state that, in accordance with Rule 415 promulgated under the Securities Act, such Registration Statement also covers such indeterminate number of additional shares of Securities as may become issuable upon stock splits, stock dividends or similar transactions. The Company shall initially register for resale all of the Registerable Securities, or an amount equal to the maximum amount allowed under Rule 415 (a)(1)(i) as interpreted by the SEC. In the event the Company cannot register sufficient shares of Securities, due to the remaining number of authorized shares of Securities being insufficient, the Company will use its best efforts to register the maximum number of shares it can base on the remaining balance of authorized shares and will use its best efforts to increase the number of its authorized shares as soon as reasonably practicable.

The Company shall use its best efforts to have the Registration Statement filed with the SEC within 60 or 120 days following the closing date of the December 2020 Agreements II (collectively as "Filing Deadline"). The Company shall pay the holder the sum of 1% of the purchase amount of the December 2020 Note II as liquidated damages, and not as a penalty for each time it fails to meet the Filing Deadline. The liquidated damages set forth in the Registration Agreement shall be paid, at the holder's option, in cash or securities priced at the share price, or portion thereof. Failure of the Company to make payment within five business days of the Filing Date shall be considered a breach of the Registration Agreement.

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NOTE 14 - SUBSEQUENT EVENTS

January 2021 Financing:

On January 12, 2021, the Company entered into a Securities Purchase Agreement (the "January 2021 SPA I") with an investor for the sale of the Company's convertible note. Pursuant to the January 2021 SPA I, among other things; (i) the Company issued a self-amortization promissory note (the "January 2021 Note I", and together with the January 2021 SPA I, the "January 2021 Agreements I") in the aggregate principal amount of $120,000 and (ii) shall issue a total of 29,385 shares of common stock as a commitment fee and 73,269 shares (the "Second Commitment Shares") shall be issued as a returnable commitment fee. Pursuant to the January 2021 Note I, the Company received net proceeds of $105,000, net of $10,000 OID and $5,000 issuance cost. The January 2021 Note I bears an interest rate of 10% per annum (which interest rate shall be increased to 16% per annum upon the occurrence of an Event of Default (as defined in the January 2021 Note I)) and shall mature on January 12, 2022. The investor has the right, only upon the occurrence of an Event of Default, to convert all or any portion of the then outstanding and unpaid principal amount and interest thereon (including any default interest) into shares of common stock equal to the lesser of (i) 105% multiplied by the closing bid price of the common stock on the trading day immediately preceding the issue date or (ii) the closing bid price of the common stock on the trading day immediately preceding the date of the respective conversion (the "Conversion Price"), subject to certain percentage of ownership limitations. The Second Commitment Shares must be returned to the Company's treasury if the January 2021 Note I is fully repaid and satisfied on or prior to the maturity date, the. Upon the occurrence and during the continuation of any Event of Default (as defined in the January 2021 Note I), the investor is no longer required to return the Second Commitment Shares to the Company and the January 2021 Note I becomes immediately due and payable thereunder in the amount equal to the principal amount then outstanding plus accrued interest (including any default interest) through the date of full repayment multiplied by 125%. The obligations of the Company under the January 2021 Note I rank senior with respect to any and all unsecured indebtedness incurred following the issue date except with respect to the Company's current and future indebtedness with e-commerce platform provider (see Note 7) and any further loans that may be received pursuant to the CARES Act and the SBA's Economic Injury Disaster loan program. Further, the January 2021 Note I contain standard anti-dilution provisions and price protections provisions in the event that the Company issues securities for a price per share less than the Conversion Price. The January 2021 Agreements I contain other provisions, covenants, and restrictions common with this type of debt transaction. Furthermore, the Company is subject to certain negative covenants under the January 2021 Agreements I, which the Company also believes are also customary for transactions of this type. The January 2021 SPA I also provides the investor with certain "piggyback" registration rights, permitting them to request that the Company include the issued shares for sale in certain registration statements filed by the Company under the Securities Act of 1934, as amended.

On January 27, 2021, the Company entered into a Securities Purchase Agreement (the "January 2021 SPA II") with an investor for the sale of the Company's convertible note. Pursuant to the January 2021 SPA II, among other things the Company; (i) agreed to issue a convertible note in the original principal amount of $330,000 (the "January 2021 Note II"); (ii) shall issue 150,000 shares of common stock, subject to a true-up based upon the trading price of the common stock and the investor's ownership limitations ("commitment share true up") and; (iii) a warrant to purchase up to 150,000 shares of common stock (the "January 2021 Warrant", and together with the January 2021 SPA II and the January 2021 Note II, the "January 2021 Agreements II"). Upon closing, the Company received $300,000 in net proceeds, net of $33,000 of OID and issuance cost. The January 2021 Note II matures on February 1, 2022 or such later date as determined at the option of the investor in the event that, and for so long as, an Event of Default (as defined in the January 2021 Note II) has not occurred and is not continuing and no event has occurred and is continuing that with the passage of time and the failure to cure would result in an Event of Default, or upon earlier acceleration or prepayment as provided therein. Upon an Event of Default, the outstanding balance will immediately and automatically increase to 140% of the outstanding balance under the January 2021 Note II as of immediately prior to the occurrence of the Event of Default and the January 2021 Note II becomes immediately due and payable. A one-time interest charge of 8% was applied on the issue date and will be payable on the maturity date. Beginning May 1, 2021 and continuing on the first day of every consecutive month thereafter for nine-months, the Company will make cash payments of $39,600. The investor may only convert the January 2021 Note II at any time or times on or after the occurrence of an Event of Default. The January 2021 Note II is convertible at the rate equal to 105% of the lowest trading price occurring during the twenty-five consecutive trading days immediately preceding the applicable conversion date ("Conversion Price"). The January 2021 Note II contains an embedded option to be accounted for as a derivative liability that will need to be valued on note inception and an obligation pursuant to the commitment fee true up. The obligations under the Note are not secured by any assets of the Company.

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The January 2021 Warrant, issued to the investor as commitment fee, provides for the right to purchase up to 150,000 shares of common stock at an exercise price of $2.50, subject to the adjustments and 4.99%, ownership limitation, until the date which is the last calendar day of the month in which the fifth anniversary of the issue date occurs.

The January 2021 Note II and the January 2021 Warrant also provides the investor with certain "piggyback" registration rights, permitting them to request that the Company include the shares issued upon conversion of the January 2021 Note II or exercise of the January 2021 Warrant, respectively, for sale in certain registration statements filed by the Company under the Securities Act of 1934, as amended (the "Securities Act"). The Agreements contain other provisions, covenants, and restrictions common with this type of debt transaction, including a no shorting provision preventing the investor from taking a short position against the Company's stock. Furthermore, the Company is subject to certain negative covenants under the January 2021 Agreements II, which the Company also believes are also customary for transactions of this type.

On March 18, 2021 (the "Redemption Date"), the Company elected, pursuant to terms of payment as described in the December 2020 Note I (see Note 4), date December 18, 2020 to pay the Investor an aggregate amount of 283,615.75 (the "Payoff Amount") consisting of $275,000 of principal, $7,865.75 of accrued interest and $750.00 in administrative fees (the "Redemption Amount"). So long as the Investor receives the Payoff Amount on March 18, 2021 (i) the December 2020 Note I shall be deemed to have been paid in full, (ii) the Investor will not exercise any of its rights relating to any potential default that may have occurred after the issue date of the December 2020 Note I, and (iii) the Second Commitment Shares (as defined in the December 2020 Note I) shall be returned by the Investor to the Company's transfer agent for cancellation as provided for in the December 2020 Agreements I (see Note 4).