

**SIMPLY BETTER BRANDS CORP.**

(FORMERLY PUREK HOLDINGS CORP.)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2021**

**(UNAUDITED)**

**(Expressed in United States Dollars)**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

The accompanying unaudited interim financial statements of Simply Better Brands Corp. for the three months ended March 31, 2021 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

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

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**Simply Better Brands Corp.***(Formerly PureK Holdings Corp.)*

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(Expressed in United States Dollars)

	As at	March 31,	December 31,
	Note(s)	2021	2020
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		6,395,246	8,308,475
Accounts receivable	4	270,479	244,419
Other receivable		85,681	49,762
Loan receivable	5	388,018	367,772
Prepaid expenses	6	706,542	1,872,948
Inventory	7	1,520,588	833,937
		<b>9,366,554</b>	<b>11,677,313</b>
<b>Non-current assets</b>			
Restricted cash	14	325,000	325,000
Security deposits		10,050	10,050
Equipment		1,919	-
Right-of-use asset	8	65,969	78,338
Goodwill	3	9,248,099	-
		<b>9,651,037</b>	<b>413,388</b>
<b>TOTAL ASSETS</b>		<b>19,017,591</b>	<b>12,090,701</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9	1,363,836	704,778
Deferred revenue		14,757	44,845
Current portion of derivative liability	16	328,769	-
Current portion of lease obligation	13	50,855	50,855
Current portion of promissory note	15	6,736,549	3,687,501
Current portion of provision of earn-out payments	16	516,152	-
		<b>9,010,918</b>	<b>4,487,979</b>
<b>Long term liabilities</b>			
Convertible notes	10	2,093,599	-
Convertible preferred shares	11	3,362,967	3,132,461
Derivative liability	10, 11, 16	7,891,577	5,469,209
Government loan	12	152,795	-
Lease obligation	13	21,880	33,756
Loan payable	14	9,812,530	9,726,972
Promissory note	15	-	2,952,951
Provision of earn-out payments	16	929,555	-
		<b>24,264,903</b>	<b>21,315,349</b>
<b>TOTAL LIABILITIES</b>		<b>33,275,821</b>	<b>25,803,328</b>

**Simply Better Brands Corp.***(Formerly PureK Holdings Corp.)*

Condensed Consolidated Interim Statements of Financial Position (unaudited) (continued)

(Expressed in United States Dollars)

	As at	March 31,	December 31,
	Note(s)	2021	2020
		\$	\$
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
Share capital	17	1,987,757	1,911,188
Reserves	17	92,089	145,022
Accumulated deficit		(16,785,128)	(16,489,043)
<b>Equity attributable to owners of the company</b>		<b>(14,705,282)</b>	<b>(14,432,833)</b>
<b>Non-controlling interest</b>	17	<b>447,052</b>	<b>720,206</b>
<b>TOTAL SHAREHOLDERS' DEFICIENCY</b>		<b>(14,258,230)</b>	<b>(13,712,627)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
		<b>19,017,591</b>	<b>12,090,701</b>
Corporate information and continuance of operations	1		
Contingencies	21		
Segmented information	22		
Subsequent events	1, 3, 10, 17, 20, 25		

These unaudited condensed consolidated interim financial statements were approved for issue on May 31, 2021 by the Board of Directors and signed on its behalf by:

/s/ Michael Galloro Director/s/ Paul Norman Director

**Simply Better Brands Corp.***(Formerly PureK Holdings Corp.)*

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive (Income) Loss (unaudited)

(Expressed in United States Dollars)

	Note(s)	For the three months ended	
		March 31,	March 31,
		2021	2020
		\$	\$
<b>REVENUE</b>		<b>2,478,280</b>	<b>3,805,497</b>
<b>COST OF GOODS SOLD</b>		<b>(929,766)</b>	<b>(1,325,712)</b>
<b>GROSS MARGIN</b>		<b>1,548,514</b>	<b>2,479,785</b>
<b>OPERATING EXPENSES</b>			
Customer service support		46,639	63,343
Depreciation expense		12,493	12,369
General and administrative expenses		165,135	158,953
Marketing expense		908,732	1,496,804
Professional fees		176,166	228,165
Regulatory and filing fees		98,074	-
Salaries and wages		669,608	334,762
Travel and entertainment		3,594	7,242
		<b>2,080,441</b>	<b>2,301,638</b>
<b>Income (loss) before other income (expenses)</b>		<b>(531,927)</b>	<b>178,147</b>
<b>Other income (expenses)</b>			
Finance costs	18	(596,194)	(4,391)
Foreign exchange loss		(241)	-
Gain on remeasurement of loan payable	14	7,123	-
Gain remeasurement of derivative liability	10, 11	535,925	-
Interest income	5	20,246	-
		<b>(33,141)</b>	<b>(4,391)</b>
<b>Income (loss) and comprehensive income (loss) for the period</b>		<b>(565,068)</b>	<b>173,756</b>
<b>Income (loss) and comprehensive income (loss) attributable to:</b>			
Equity holders of the parent		(296,085)	88,616
Non-controlling interests		(268,983)	85,140
		<b>(565,068)</b>	<b>173,756</b>
<b>Basic and diluted earnings (loss) per share for the period attributable to common shareholders (\$ per common share)</b>		<b>(0.03)</b>	<b>0.46</b>
<b>Weighted average number of common shares outstanding</b>		<b>21,036,875</b>	<b>375,000</b>

See accompanying notes to these consolidated financial statements.

**Simply Better Brands Corp.**

(Formerly PureK Holdings Corp.)

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency) (unaudited)

(Expressed in United States Dollars)

	Note(s)	Share capital		Reserves	Retained earnings (accumulated deficit)	Total	Non-controlling interest	Total
		Number of shares	Amount					
<b>Balance as of December 31, 2020</b>		<b>21,016,875</b>	<b>1,911,188</b>	<b>145,022</b>	<b>(16,489,043)</b>	<b>(14,432,833)</b>	<b>720,206</b>	<b>(13,712,627)</b>
Shares issued for cash - exercise of warrants	17	22,500	23,636	-	-	23,636	-	23,636
Reclassification of grant-date fair value on exercise of warrants	17	-	52,933	(52,933)	-	-	-	-
Distribution to shareholders	17	-	-	-	-	-	(4,171)	(4,171)
Net loss for the period		-	-	-	(296,085)	(296,085)	(268,983)	(565,068)
<b>Balance at March 31, 2021</b>		<b>21,039,375</b>	<b>1,987,757</b>	<b>92,089</b>	<b>(16,785,128)</b>	<b>(14,705,282)</b>	<b>447,052</b>	<b>(14,258,230)</b>
<b>Balance as of December 31, 2019</b>		<b>375,000</b>	-	-	<b>1,206,375</b>	<b>1,206,375</b>	<b>1,201,559</b>	<b>2,407,934</b>
Distribution to shareholders		-	-	-	(350,700)	(350,700)	(349,300)	(700,000)
Net income for the period		-	-	-	88,616	88,616	85,140	173,756
<b>Balance at March 31, 2020</b>		<b>375,000</b>	-	-	<b>944,291</b>	<b>944,291</b>	<b>937,399</b>	<b>1,881,690</b>

See accompanying notes to these consolidated financial statements.

**Simply Better Brands Corp.***(Formerly PureK Holdings Corp.)*

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(Expressed in United States Dollars)

	Note(s)	For the three months ended	
		March 31, 2021	March 31, 2020
		\$	\$
<b>Cash flow provided from (used by)</b>			
<b>OPERATING ACTIVITIES</b>			
<b>Net income (loss) for the period</b>		(565,068)	173,756
<b>Adjustments for items not affecting cash</b>			
Accretion of interest of convertible notes	10	86,889	-
Accretion of interest of loan payable	14	92,681	-
Accretion of interest of preferred shares	11	230,506	-
Accretion of interest of promissory notes	15	96,097	-
Accretion of interest of provision of earn-out payments		87,197	-
Depreciation		12,493	12,369
Interest income	5	(20,246)	-
Gain on modification of loan payable	14	(7,123)	-
Gain on remeasurement of derivative liability		(535,925)	-
<b>Change in non-cash working capital</b>			
Accounts receivable, credit card processor, net		37,567	700,464
Other receivable		12,460	-
Prepaid expenses		(310,650)	(81,002)
Inventory		(42,414)	219,716
Accounts payable and accrued liabilities		(51,580)	(298,577)
Deferred revenue		(30,088)	(19,302)
<b>Cash flow from (used in) operating activities</b>		<b>(907,204)</b>	<b>707,424</b>
<b>INVESTING ACTIVITIES</b>			
Net cash paid for acquisition	3	(905,956)	-
<b>Cash flow used investing activities</b>		<b>(905,956)</b>	<b>-</b>
<b>FINANCING ACTIVITIES</b>			
Debt issuance costs	10	(107,658)	-
Distribution to shareholders	17	(4,171)	(700,000)
Lease payments	13	(11,876)	(9,859)
Proceeds on exercise of warrants	17	23,636	-
<b>Cash flow used in financing activities</b>		<b>(100,069)</b>	<b>(709,859)</b>
<b>Increase (decrease) in cash</b>		<b>(1,913,229)</b>	<b>(2,435)</b>
<b>Cash, beginning of period</b>		<b>8,308,475</b>	<b>1,061,746</b>
<b>Cash, end of period</b>		<b>6,395,246</b>	<b>1,059,311</b>

Supplemental cash flow information

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## **Simply Better Brands Corp.**

*(Formerly PureK Holdings Corp.)*

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the Three Months Ended March 31, 2021

(Expressed in United States Dollars)

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### **1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS**

Simply Better Brands Corp. (the "Company" or "SBBC") was incorporated by Certificate of Incorporation issued pursuant to the provisions of the British Columbia Business Corporations Act on March 19, 2018 and changed its name from AF1 Capital Corp. to PureK Holdings Corp. on December 8, 2020 and from PureK Holdings Corp. to Simply Better Brands Corp. on May 3, 2021.

The Company is listed on the TSX Venture Exchange (the "Exchange").

In connection with the name changes, on May 3, 2021, the Company's common shares commence trading on the TSX under the symbol "SBBC". Prior to May 3, 2021, the Company's common shares traded on the TSX under the symbol "PKAN".

The Company is an international omni-channel platform with diversified assets in the emerging plant-based and holistic wellness consumer product categories. The Company focuses on innovation for the informed Millennial and Generation Z generations in the rapidly growing plant-based, natural, and clean ingredient space. The Company also focuses on expansion into high-growth consumer product categories including CBD products, plant-based food and beverage, and the global pet care and skin care industries. The head office and the registered address of the Company are 206-595 Howe Street Vancouver, British Columbia V6C 2T5.

#### **Stock split**

On February 22, 2021, the Company implemented a 3 for 1 forward split (the "Stock Split") of the Company's issued and outstanding common shares. The number of shares and relevant information including but not limited to the share price, number of warrants and options and exercise price per warrant and option presented in these financial statements had been retroactively adjusted accordingly.

#### **Acquisition of No B.S. Life, LLC ("No B.S. Skincare")**

On February 18, 2021, the Company completed the acquisition of No B.S. Skincare.

See Note 3 for details.

#### **Acquisition of Nirvana Group, LLC ("Nirvana")**

On February 17, 2021, the Company entered into a definitive agreement ("the Nirvana Agreement") to acquire Nirvana (the "Acquisition of Nirvana"), a Florida-based company specializing in the development, manufacturing, and distribution of all-natural pet wellness products and which includes the BudaPets brand.

Under the terms of the Nirvana Agreement, the Company will acquire all of the issued and outstanding membership units of Nirvana. The Company will issue \$1.5 million payable in unsecured convertible debentures, with 3.25% non-compounding interest per annum, with a maturity date that is twenty-four months following the date of closing. Current members of Nirvana will have the option, on a monthly basis, to convert any portion of the convertible debentures into common shares of the Company at a price equal to the higher of CA\$3.50 or the VWAP. Any portion or all of the convertible debentures which have not been so converted into common shares will be payable in cash at the maturity date.

In addition, current members of Nirvana will be eligible to receive earnout compensation of \$500,000, payable in common shares of the Company, if Nirvana's net revenue equals or exceeds \$1 million for the 2021 fiscal year, and an additional \$1 million payable in common shares of the Company if Nirvana's net revenue exceeds \$2.5 million in the fiscal year 2022.

The Acquisition of Nirvana was completed on April 28, 2021.

## **Simply Better Brands Corp.**

*(Formerly PureK Holdings Corp.)*

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the Three Months Ended March 31, 2021

(Expressed in United States Dollars)

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### **1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS (CONTINUED)**

#### **Proposed acquisition.**

- **TRU Brands Inc. (“Tru Brands”)**

On March 3, 2021, the Company entered into a binding term sheet (the “Tru Brands LOI”) to acquire 100% of the issued and outstanding shares of Tru Brands by issuing the common shares of the Company with a total market value of \$7,500,000 (the “Purchase Price”). Tru Brands is a health and wellness brand specializing in nutritious snacks for women.

The Purchase Price is determined based on the share price of the Company equal to the ten-trading day volume weighed average trading price of the shares on the Exchange prior to the closing date of the transaction.

#### **COVID-19**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

The unaudited condensed consolidated interim financial statements of the Company for the three months ended March 31, 2021 were approved by the Board of Directors on May 31, 2021.

### **2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION**

#### **Statement of compliance to International Financial Reporting Standards**

These unaudited condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These financial statements comply with International Accounting Standard 34, Interim Financial Reporting.

#### **Basis of presentation**

These unaudited condensed consolidated interim financial statements include the accounts of SBBC and its subsidiaries. This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2020.

#### **New accounting standards**

There were no new or amended IFRS pronouncements effective January 1, 2021 that impacted these condensed consolidated interim financial statements.

## Simply Better Brands Corp.

(Formerly PureK Holdings Corp.)

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the Three Months Ended March 31, 2021

(Expressed in United States Dollars)

### 3. ACQUISITION OF NO B.S. LIFE, LLC

As discussed in Note 1, on February 18, 2021 (the "Closing Date"), the Company completed the acquisition of No B.S. Skincare with DTC Brands LLC ("DTC").

Pursuant to the Membership Interest Purchase Agreement (the "No BS Agreement"), the Company and its subsidiary, PureKana LLC ("PureKana"), acquired all of the issued and outstanding membership units of No B.S. Skincare, with 65% of the purchase price to be paid by the Company and 35% to be paid by PureKana, with resulting proportional ownership interests (the "Acquisition of No B.S."), for the total consideration paid of \$9,759,940.

The Acquisition of No B.S. is accounted for in accordance with guidance provided IFRS 3, "Business Combinations".

The total consideration of \$9,759,940 have been allocated as follows:

	\$
Cash and cash equivalents	94,044
Accounts receivable, credit card processor, net	63,627
Other receivable	48,379
Prepaid expenses	22,944
Inventory	644,237
Equipment	2,043
Accounts payable and accrued liabilities	(210,638)
Government loan	(152,795)
<b>Fair value of net assets acquired</b>	<b>511,841</b>
<b>Goodwill</b>	<b>9,248,099</b>
	<b>9,759,940</b>

	\$
<b>Consideration comprised of:</b>	
Cash <sup>(1)</sup>	2,500,000
Promissory note <sup>(2)</sup>	500,000
Convertible notes (Note 10)	4,000,000
Fair value of earn-out payments (Note 16)	2,759,940
	<b>9,759,940</b>

1) \$1,500,000 was made during the year ended December 31, 2020.

2) The unsecured promissory note of \$500,000 was issued on April 13, 2021. The unsecured promissory note bears a non-compounding interest at 3.25% per annum and payable at the maturity date, which is August 17, 2021. The promissory note was included in the accounts payable and accrued liabilities as of March 31, 2021.

## Simply Better Brands Corp.

(Formerly PureK Holdings Corp.)

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the Three Months Ended March 31, 2021

(Expressed in United States Dollars)

### 4. ACCOUNTS RECEIVABLE

Following is the aging of the Company's account receivable as of March 31, 2021 and December 31, 2020:

	Total	Neither past due nor impaired	< 90 days	91 - 181 days	>180 days
	\$	\$	\$	\$	\$
<b>March 31, 2021</b>	<b>270,479</b>	228,224	40,238	2,017	-
<b>December 31, 2020</b>	<b>244,419</b>	244,419	-	-	-

As at March 31, 2021 and December 31, 2020, the majority of the accounts receivable was comprised of amounts from credit card processors for sales made to online customers and invoices for sales made to retail offline customers. The payments from credit card processors will be remitted to the Company within two business days. The balances as of March 31, 2021 and December 31, 2020 were remitted to the Company subsequent to March 31, 2021 and December 31, 2020, respectively.

During the three months ended March 31, 2021 and 2020, no impairment of receivable was recognized.

### 5. LOAN RECEIVABLE

	\$
<b>As at December 31, 2020</b>	<b>367,772</b>
Interest	20,246
<b>As at March 31, 2021</b>	<b>388,018</b>

On October 13, 2020, PureKana entered into a loan agreement (the "Promissory Note") with an amount of \$350,000 with Tru Brands. The Promissory Note matures on June 30, 2021.

The Promissory Notes bear 12% interest per annum compounded annually (the "PN Interest Rate") and an origination fee of \$10,000 which is due on the maturity date. The interest payment due on the maturity date is the greater of:

- i) \$10,000 or
- ii) the amount determined by the PN Interest Rate.

The Promissory Note is secured with all of the assets of Tru Brands.

During the three months ended March 31, 2021, the Company recognized interest income of \$20,246 related to the Promissory Note (March 31, 2020 – \$nil).

As of March 31, 2021, the carrying value of the Promissory Notes was \$388,018 (December 31, 2020 – \$367,772).

**Simply Better Brands Corp.***(Formerly PureK Holdings Corp.)*

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the Three Months Ended March 31, 2021

(Expressed in United States Dollars)

**6. PREPAID EXPENSES**

	March 31, 2021	December 31, 2020
	\$	\$
Vendor deposits	572,705	372,948
Acquisition related costs for the acquisition of Nirvana Group, LLC	29,482	-
Others	104,355	-
Deposit paid to No B.S. Life, LLC for acquisition	-	1,500,000
	<b>706,542</b>	<b>1,872,948</b>

**7. INVENTORY**

Inventories are comprised substantially of packaged finished goods ready for sale. Cost of goods sold is comprised of the cost of inventory sold and any adjustments to reduce the inventory to net realizable value.

**8. RIGHT-OF-USE ASSET**

	Cost	Accumulated depreciation	Carrying value
<b>As at December 31, 2020</b>	<b>131,938</b>	<b>(53,600)</b>	<b>78,338</b>
Additions	-	(12,369)	(12,369)
<b>As at March 31, 2021</b>	<b>131,938</b>	<b>(65,969)</b>	<b>65,969</b>

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2021	December 31, 2020
	\$	\$
Accounts payable	558,260	374,852
Direct deposit payable and credit card	11,535	12,854
Promissory notes to be issued Blic Holding Inc. (Note 3)	500,000	-
Sales tax payable	294,041	317,072
	<b>1,363,836</b>	<b>704,778</b>

## Simply Better Brands Corp.

(Formerly PureK Holdings Corp.)

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the Three Months Ended March 31, 2021

(Expressed in United States Dollars)

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### 10. CONVERTIBLE NOTES

Following is the change of the convertible notes during the three months ended March 31, 2021:

	\$
Initial recognition	2,006,710
Finance costs	86,889
<b>As at March 31, 2021</b>	<b>2,093,599</b>

Following is the change of the derivative liability related to the convertible notes during the three months ended March 31, 2021:

	\$
Initial recognition	1,885,632
Remeasurement	(43,171)
<b>As at March 31, 2021</b>	<b>1,842,461</b>

In connection with the Acquisition of No B.S. (Note 3), the Company issued \$4,000,000 3.25% unsecured convertible notes with a maturity date of February 17, 2023. The convertible notes were convertible at the option of the holders. Interest on these convertible notes is payable when the notes are converted or become due.

The convertible notes holders may convert the convertible notes to the common shares of the Company any time before the maturity date at the highest price of:

- i) the volume weighted average price ("VWAP") of the Company's common shares on the Exchange during the 15 days trading days immediately preceding the date of conversion; or
- ii) CA\$3.33.

The convertible notes holders are not entitled to exercise the conversion right in respect of the convertible notes if the convertible notes holders will hold in excess of 7% of the issued and outstanding common shares of the Company.

The Company determined that it had an obligation to the convertible notes holders, that met the definition of derivative liability, such that the number of common shares of the Company issued upon the conversion would depend on the market price of the common shares of the Company and the foreign exchange rate between US\$ and CA\$ at the date of conversion. As a derivative liability, this long-term liability should be re-measured at each reporting period.

For accounting purposes, the Company calculated the fair value of the derivative liability at the date of issuance using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.21%, an expected life of 2 years, an expected volatility of 92% and an expected dividend yield of 3.25%, which totaled \$1,885,632 and recorded these values as a derivative liability. The remaining balance of \$2,114,368 was recorded as convertible notes. The carrying value of the convertible notes is being accreted to \$4,000,000 between the date of issuance to February 17, 2023 by the effective interest rate method.

In connection with the convertible notes, the Company incurred issuance costs of \$107,658. These issuance costs are recorded as a reduction of the carrying value of the convertible notes.

During the three months ended March 31, 2021, accretion expense of \$86,889 was recorded as finance cost with a corresponding increase in the carrying value of the convertible notes.

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### 10. CONVERTIBLE NOTES (CONTINUED)

As of March 31, 2021, the Company remeasured the fair value of the derivative liability using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.23%, an expected life of 1.88 years, an expected volatility of 97% and an expected dividend yield of 3.25%, which totaled \$1,842,461. The change in the fair value (\$43,171) of the derivative liability was recognized as a gain on remeasurement of derivative liability in the statements of loss and comprehensive loss during the three months ended March 31, 2021.

As of March 31, 2021, the carrying value of the convertible notes and the fair value of derivative liability was \$2,093,599 and \$1,842,461, respectively.

None of these convertible notes were converted during the three months ended March 31, 2021.

Subsequent to March 31, 2021, convertible notes with a principal value of \$2,000,000 were converted into common shares.

### 11. CONVERTIBLE PREFERRED SHARES

Following is the change of the convertible preferred shares during the three months ended March 31, 2021:

	\$
<b>As at December 31, 2020</b>	<b>3,132,461</b>
Finance costs	230,506
<b>As at March 31, 2021</b>	<b>3,362,967</b>

Following is the change of the derivative liability related to the convertible preferred shares during the three months ended March 31, 2021:

	\$
<b>As at December 31, 2020</b>	<b>5,469,209</b>
Remeasurement	(386,347)
<b>As at March 31, 2021</b>	<b>5,082,862</b>

In connection with the reverse acquisition completed during the year ended December 31, 2020, the Company assumed the secured debts in the aggregate principal amount plus accrued interest of \$15,134,298 payable to the PureKana Founders and repaid \$8,200,000 of the outstanding aggregate principal amount and interest accrued thereon through the issuance of an aggregate of 1,025,000 Series 1 preferred shares with a redemption amount of U\$8.00 to the PureKana Founders.

The Company determined that it had an obligation to the Series 1 preferred shares holders, that met the definition of derivative liability, such that the number of common shares of the Company issued upon the conversion would depend on the market price of the common shares of the Company and the foreign exchange rate between US\$ and CA\$ at the date of conversion. As a derivative liability, this long-term liability should be re-measured at each reporting period.

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### 11. CONVERTIBLE PREFERRED SHARES (CONTINUED)

As of March 31, 2021, the Company remeasured the fair value of the derivative liability using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.73%, an expected life of 4.7 years, an expected volatility of 97.48% and an expected dividend yield of 6%, which totaled \$5,082,862. The change in the fair value (\$386,347) of the derivative liability was recognized as a gain on remeasurement of derivative liability in the statements of loss and comprehensive loss during the three months ended March 31, 2021.

During the three months ended March 31, 2021, accretion expense of \$230,506 was recorded as finance cost with a corresponding increase in the carrying value of the convertible preferred shares.

As of March 31, 2021, the carrying value of the convertible preferred shares and the fair value of derivative liability was \$3,362,967 (December 31, 2020 – \$3,132,461) and \$5,082,862 (December 31, 2020 – \$5,469,209), respectively.

None of these convertible preferred shares were converted during the three months ended March 31, 2021.

### 12. GOVERNMENT LOAN

On December 27, 2020, the President of the United States signed new stimulus legislation into law. The new law, the *Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act*, P.L. 116-260 (the "Economic Aid Act"), authorizes new and additional loans under the Paycheck Protection Program (the "PPP Loan") and modifies the law the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act" for this purpose).

The proceeds from the PPP Loan may only be used to fund following eligible expenses:

- Payroll, rent, covered mortgage interest and utilities;
- Certain worker protection and facility modification expenditures, including personal protective equipment, to comply with COVID-19 federal health and safety guideline;
- Certain property damage costs related to property damage and vandalism or looting due to public disturbances in 2020 that were not covered by insurance or other compensation;
- Expenditures to suppliers that are essential at the time of purchase to the recipient's current operations; and
- Other certain operating expenditures, such as payments for business software or cloud computing services; product or service delivery expenses; the processing, payment, or tracking of payroll expenses; human resources; sales and billing functions; or accounting or tracking of supplies, inventory, records, and expenses.

For expenses to be forgivable, the proceeds of the PPP Loan will have to be spent at least 60% on payroll over 8 or 24 weeks covered period.

On January 21, 2021, No B.S. Skincare received the PPP Loan in the amount of \$152,795. The PPP Loan bears 1% interest per annum and may be repaid before January 21, 2026.

As at March 31, 2021, the carrying value of the PPP Loan is \$152,795 (December 31, 2020 – \$nil).



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**13. LEASE OBLIGATION**

As at March 31, 2021, future minimum lease payments for the Company's under finance lease are as follows:

	\$
<b>As at December 31, 2020</b>	<b>84,611</b>
Add: Finance costs	2,824
Less: Payments	(14,700)
<b>As at March 31, 2021</b>	<b>72,735</b>
Current	50,855
Long-term	21,880
<b>As at March 31, 2021</b>	<b>72,735</b>
<b>Minimum lease payments for each fiscal year:</b>	
2021	44,850
2022	35,350
	<b>80,200</b>
<b>Amount representing interest</b>	
2021	(5,871)
2022	(1,594)
	<b>(7,465)</b>
	<b>72,735</b>

**14. LOAN PAYABLE**

	\$
<b>As at December 31, 2020</b>	<b>9,726,972</b>
Finance costs	92,681
Gain on modification	(7,123)
<b>As at March 31, 2021</b>	<b>9,812,530</b>

On December 11, 2020 (the "Funding Date"), the Company through its subsidiary PureKana entered into a loan agreement (the "Loan") with a financial institution with an amount of \$10,000,000 (the "Loan Amount"). The Loan is secured with all of the assets of the Company and guaranteed by the members of the Company. The Loan matures on December 11, 2025 (the "Maturity Date").

From and after the Funding Date until and including the Maturity Date, the Loan bears an interest rate of US\$ 3-month LIBOR, determined as of the Funding Date and as will adjust at each calendar quarter thereafter, plus 3.00% (the "FF Interest Rate").

Pursuant to the Loan, the Company is required to set aside \$325,000 as interest reserve.

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### 14. LOAN PAYABLE (CONTINUED)

From the Funding Date to December 11, 2021, interest on the outstanding Loan Amount will be capitalized to the Loan Amount (the “Capitalized Interest”). Subsequently, any outstanding interest will be payable on the fifth day of each calendar quarter commencing January 5, 2022, and on the Maturity Date.

The Loan Amount and Capitalized Interest should be paid as follows:

- On December 11, 2023 – 15% of the Financing Amount and the Capitalized Interest
- On December 11, 2024 – 15% of the Financing Amount and the Capitalized Interest
- On December 11, 2024 – the remaining Financing Amount and the Capitalized Interest

The Loan contains financial covenants stating that the debt service coverage ratio (the “Debt Service Coverage Ratio”) of the Company at the end of each calendar year from December 31, 2020 to the Maturity Date should not be less than 1.20. As of December 31, 2020, the Company is in compliance with these financial covenants.

Pursuant to the Loan, the Debt Service Coverage Ratio is defined as the quotient of PureKana’s adjusted earnings before interest, taxes, depreciation, and amortization (the “Adjusted EBITDA”) for each reporting period divided by a ten-year amortization of the Loan which is the sum of the interest expense for the reporting period and the scheduled principal payments made with respect to the Loan Amount for the reporting period. The Adjusted EBITDA is defined as the unadjusted EBITDA adjusted for any non-recurring, one-time, or irregular items.

During the three months ended March 31, 2021, the Company remeasured the fair value of the Loan due to the change of the US\$ 3-month LIBOR; as a result, the Company recognized a gain on modification of \$7,123.

During the three months ended March 31, 2021, the Company recognized \$92,681 as finance costs.

As at March 31, 2021, the carrying value of the Loan is \$9,812,530 (December 31, 2020 – \$9,726,972).

### 15. PROMISSORY NOTE

	\$
<b>As at December 31, 2020</b>	<b>6,640,452</b>
Finance costs	96,097
<b>As at March 31, 2021</b>	<b>6,736,549</b>
Current	6,736,549
Long-term	-
<b>As at March 31, 2021</b>	<b>6,736,549</b>

In connection with the reverse acquisition completed during the year ended December 31, 2020, the Company assumed the secured debts with a principal amount of \$6,934,298 (the “Promissory Notes”) which were issued to the PureKana Founders on December 4, 2020.

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**15. PROMISSORY NOTE (CONTINUED)**

The Promissory Notes bear interest at 6% per annum and compounded annually. The Company is required to repay the Promissory Notes as follows:

- \$4,000,000 plus outstanding interest on December 31, 2021; and
- remaining balances including outstanding interest on March 11, 2022.

During the three months ended March 31, 2021, an interest expense of \$96,097 was recorded as finance costs with a corresponding increase in the carrying value of the liability.

As at December 31, 2020, the carrying value of the Promissory Notes is \$6,736,549 (December 31, 2020 – \$6,640,452) of which \$6,736,549 (December 31, 2020 – \$3,687,501) was classified as current liability.

**16. PROVISION OF EARN-OUT PAYMENTS**

Following is the change of the provision of earn-out payments during the three months ended March 31, 2021:

	\$
Initial recognition	1,358,510
Finance costs	87,197
<b>As at March 31, 2021</b>	<b>1,445,707</b>
Current	516,152
Long-term	929,555
<b>As at March 31, 2021</b>	<b>1,445,707</b>

Following is the change of the derivative liability related to the earn-out payments during the three months ended March 31, 2021:

	\$
Initial recognition	1,401,430
Remeasurement	(106,407)
<b>As at March 31, 2021</b>	<b>1,295,023</b>
Current	328,769
Long-term	966,254
<b>As at March 31, 2021</b>	<b>1,295,023</b>

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### 16. PROVISION OF EARN-OUT PAYMENTS (CONTINUED)

The Company accounts for “contingent consideration” according to IFRS 3, “Business Combinations”. Contingent consideration typically represents the acquirer’s obligation to transfer additional assets or equity interests to the former owners of the acquiree if specified future events occur or conditions are met. IFRS 3 requires that contingent consideration be recognized at the acquisition-date fair value as part of the consideration transferred in the transaction. IFRS 3 uses the fair value definition according to IFRS 13, “Fair Value Measurements”, which 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. As defined in IFRS 3, contingent consideration is (i) an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree, if specified future events occur or conditions are met or (ii) the right of the acquirer to the return of previously transferred consideration, if specified conditions are met.

Pursuant to the NO BS Agreement, current members of DTC will be eligible to receive earnout compensation of \$1 million if No B.S. Skincare’s revenues and earnings before interest, taxes, depreciation, and amortization (“EBITDA”) equal or exceed \$6 million and \$360,000, respectively, in the fiscal year 2021 (the “2021 Earn-Out Payments”), and/or \$2.5 million if No B.S. Skincare’s revenues and EBITDA exceed \$8 million and \$480,000, respectively, in the fiscal year 2022 (the “2022 Earn-Out Payments”) (collectively the “Earn-Out Payments”).

The Company has the option to settle all or a portion of the Earn-Out Payments in cash or in the form of common shares of the Company valued using the highest price of:

- i) the VWAP of the Company’s common shares on the Exchange during the 15 days trading days immediately preceding the date of settlement; or
- ii) CA\$3.33.

The Company valued the Earn-Out Payments based on an analysis using a cash flow model to determine the expected contingent consideration payment as \$2,759,940 at the date of acquisition.

The Company determined that it had an obligation to the current members of DTC, that met the definition of derivative liability, such that the number of common shares of the Company issued upon the conversion would depend on the market price of the common shares of the Company and the foreign exchange rate between US\$ and CA\$ at the date of conversion. As a derivative liability, this liability should be re-measured at each reporting period.

For accounting purposes, the Company calculated the fair value of the derivate liability (\$1,401,430) at the date of issuance using the Black-Scholes option pricing model with following:

	2021 Earn-Out Payments	2022 Earn-Out Payments
Risk-free interest rate	0.21%	0.21%
Expected annual volatility	103%	93%
Expected life (in years)	1.00	2.00
Expected dividend yield	-	-
Grant date fair value (\$)	385,180	1,016,250

The remaining balance of \$1,358,510 was recorded as provision of earn-out payments.

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### 16. PROVISION OF EARN-OUT PAYMENTS (CONTINUED)

During the three months ended March 31, 2021, accretion expense of \$87,197 was recorded as finance cost with a corresponding increase in the carrying value of the provision of earn-out payments.

As of March 31, 2021, the Company remeasured the fair value of the derivative liability (\$1,295,023) using the Black-Scholes option pricing model with following assumptions:

	2021 Earn-Out Payments	2022 Earn-Out Payments
Risk-free interest rate	0.23%	0.23%
Expected annual volatility	96%	95%
Expected life (in years)	1.00	2.00
Expected dividend yield	-	-
Fair value (\$)	328,769	966,254

The change in the fair value (\$106,407) of the derivative liability was recognized as a gain on remeasurement of derivative liability in the statements of loss and comprehensive loss during the three months ended March 31, 2021.

As of March 31, 2021, the carrying value of the provision of earn-out payments and the fair value of derivative liability was \$1,445,707 and \$1,295,023 of which \$516,152 and \$328,769 was classified as current liability, respectively.

### 17. SHARE CAPITAL

#### Authorized share capital

Unlimited number of series 1 preferred shares without par value.

Unlimited number of common shares without par value.

#### Escrow shares

On December 11, 2020, the Company entered into an escrow agreement, whereby common shares will be held in escrow and are scheduled for release as follows:

- December 11, 2020: 5,535,469 common shares (released)
- June 11, 2021: 5,160,469 common shares
- December 11, 2021: 5,160,469 common shares
- June 11, 2022: 5,160,468 common shares

As of March 31, 2011, there were 15,481,406 common shares held in escrow.

#### Issued share capital

As at March 31, 2021, the Company had 21,039,375 common shares (December 31, 2020 – 21,016,875) common shares issued and outstanding.

During the three months ended March 31, 2021, 22,500 warrants were exercised for cash proceeds of \$23,636 (CA\$30,000). In addition, the Company reclassified the grant date fair value of the exercised warrants of \$52,933 from reserve to share capital.

Subsequent to March 31, 2021, the Company issued 457,521 common shares for conversion of the convertible notes.

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### 17. SHARE CAPITAL (CONTINUED)

#### Warrants

The changes in warrants during the three months ended March 31, 2021 are as follows:

	Number outstanding	Weighted average exercise price (CA\$)
Balance, beginning of period	22,500	1.33
Exercised	(22,500)	1.33
<b>Balance, end of period</b>	<b>-</b>	<b>-</b>

#### Stock options

The Company has a Stock Option Plan (the "Plan") applicable to directors, officers, and consultants, under which the total outstanding stock options are limited to 10% of the outstanding common shares of the Company at any one time. Under the plan, an option's maximum term is five years from the grant date. Under the stock option plan, the Board has the option of determining vesting periods.

No options were granted, exercised or cancelled during the three months ended March 31, 2021 and 2020.

The following summarizes information about stock options outstanding and exercisable as at March 31, 2021:

Expiry date	Exercise price (CA\$)	Options outstanding	Options exercisable	Estimated grant date fair value (\$)	Weighted average remaining contractual life (in years)
December 11, 2021	1.33	37,500	37,500	92,089	0.70

#### Equity incentive plan

On January 19, 2021, the Board approved a Restricted Share Unit ("RSU") Plan and Deferred Share Unit (the "DSU") Plan (collectively the "Incentive Plan") for the purpose of providing a share-related mechanism to attract, retain and motivate qualified directors, employees and consultants of the Company and its subsidiaries.

The Incentive Plan is administered by the Board of Directors, which sets the terms of incentive awards under the Incentive Plan. The maximum number of common shares available for issue under the Incentive Plan is 2,101,686 common shares of the Company.

Grants of RSUs and DSUs vest as to one-third on each of the first, second and third anniversaries of the date of grant, unless otherwise set by the Board or plan administrator.

- **RSU**

The Incentive Plan permits the Company to either redeem RSUs for cash, issue common shares of the Company from treasury, or purchase common shares of the Company on the open market, to satisfy all or any portion of a vested RSU award.

During the three months ended March 31, 2021, the Company granted 390,000 RSUs to a consultant of the Company, which will vest upon the Incentive Plan receiving disinterested shareholder approval.

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### 17. SHARE CAPITAL (CONTINUED)

#### Equity incentive plan (continued)

- **RSU**

Subsequent to March 31, 2021, the Board approved to grant RSU with a value of \$116,667 to the Company's Chief Executive Officer as a performance bonus. The RSU is subjected to the shareholders' approval.

- **DSU**

The Incentive Plan permits the Company to either redeem DSUs for cash or issue common shares of the Company from treasury, to satisfy all or any portion of a vested DSU award.

#### Distribution to shareholders

During the three months ended March 31, 2021, PureKana made a distribution of \$4,171 (March 31, 2020 – \$349,300) to its members.

#### Non-controlling interest

The following schedule shows the effects of the changes in non-controlling interest regarding the non-redeemable 49.9% ownership owned by the PureKana Founders during the three months ended:

	\$
<b>Balance as of December 31, 2020</b>	<b>720,206</b>
Distribution	(4,171)
Share of loss	(268,983)
<b>Balance as of March 31, 2021</b>	<b>447,052</b>

### 18. FINANCE COSTS

		March 31, 2021	March 31, 2020
	Note(s)	\$	\$
Accretion of interest of convertible notes	10	86,889	-
Accretion of interest of lease obligation	13	2,824	4,391
Accretion of interest of loan payable	14	92,681	-
Accretion of interest of preferred shares	11	230,506	-
Accretion of interest of promissory notes	15	96,097	-
Accretion of interest of provision of earn-out payments	16	87,197	-
		<b>596,194</b>	<b>4,391</b>

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**19. SUPPLEMENTAL CASH FLOW INFORMATION**

	Note(s)	For the three months ended	
		March 31, 2021	March 31, 2020
		\$	\$
<b>Supplemental cash flow information</b>			
Cash paid during the period for income taxes		-	-
Cash paid during the year for interest		-	-
Convertible notes issued for acquisition	3, 10	4,000,000	-
Fair value of provision of earn-out payments at the date of acquisition	3, 16	2,759,940	-
Promissory note to be issued for acquisition included in accounts payable and accrued liabilities	3, 9	500,000	-
Reclassification of fair value of derivative liability related to the convertible notes	10	1,885,632	-
Reclassification of fair value of derivative liability related to the provision of earn-out payments	16	1,401,430	-
Reclassification of grant-date fair value on exercised warrants	17	52,933	-
Reclassification of the current portion of derivative liability	16	328,769	-
Reclassification of the prepaid expenses to investment in associates	3	1,500,000	-

**20. RELATED PARTIES**

Key management personnel include those persons having the authority and responsibility of planning, directing, and executing the activities of the Company. The Company has determined that its key management personnel consist of the Company's officers and directors.

Key management compensation, including benefits, for the three months ended March 31, 2021 was \$223,146 (March 31, 2020 – \$71,347).

Subsequent to March 31, 2021:

- The Board approved to grant RSU with a value of \$116,667 to the Company's Chief Executive Officer as a performance bonus. The RSU is subjected to the shareholders' approval.
- The Board approved a performance bonus \$128,625 to be paid to the Company's Chief Financial Officer.



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### **21. CONTINGENCIES**

#### **Litigation**

In the normal course of business, the Company may be involved in legal proceedings, claims, and assessments arising from the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. After consulting legal counsel, the Company does not believe any adverse judgments will have a material effect on the operations of the Company.

### **22. SEGMENTED INFORMATION**

The Company operates in one reportable segment being the sale of consumer health and wellness products with sales principally generated from the United States. All of the Company's non-current assets are located in United States.

During the three months ended March 31, 2021 and 2020, five and three vendors represented more than 75% of the Company's inventory purchases, respectively.

During the three months ended March 31, 2021 and 2020, there were no significant customers which made up more than 10% of sales.

### **23. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to maintain adequate levels of funding in order to safeguard the Company's ability to continue as a going concern, fund its planned activities and commitments and retain financial flexibility to respond to unforeseen future events and circumstances. The Company manages and makes adjustments to its capital structure based on the level of funds on hand and anticipated future expenditures. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the three months ended March 31, 2021. The Company is subject to externally imposed capital requirements in connection with its loan payable, as detailed in Note 14. The Company is in compliance with these capital requirements.

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**24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****Fair value**

The fair values of financial assets and liabilities, together with their carrying amounts, are presented by class in the following table:

	March 31, 2021	FVTPL \$	Amortized costs \$	FVTOCI \$
<b>Financial assets:</b>				
<b>ASSETS</b>				
Cash	6,395,246	-	6,395,246	-
Accounts receivable	270,479	-	270,479	-
Other receivable	85,681	-	85,681	-
Loan receivable	388,018	-	388,018	-
Prepaid expenses	706,542	-	706,542	-
Restricted cash	325,000	-	325,000	-
Security deposits	10,050	-	10,050	-
<b>Financial liabilities:</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	1,363,836	-	1,363,836	-
Current portion of derivative liability	328,769	328,769	-	-
Current portion of lease obligation	50,855	-	50,855	-
Current portion of promissory note	6,736,549	-	6,736,549	-
Current portion of provision of earn-out payments	516,152	-	516,152	-
Convertible notes	2,093,599	-	2,093,599	-
Convertible preferred shares	3,362,967	-	3,362,967	-
Derivative liability	7,891,577	7,891,577	-	-
Government loan	152,795	-	152,795	-
Lease obligation	21,880	-	21,880	-
Loan payable	9,812,530	-	9,812,530	-
Provision of earn-out payments	929,555	-	929,555	-

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**24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)****Fair value (continued)**

	December 31, 2020	FVTPL \$	Amortized costs \$	FVTOCI \$
<b>Financial assets:</b>				
<b>ASSETS</b>				
Cash	8,308,475	-	8,308,475	-
Accounts receivable	244,419	-	244,419	-
Other receivable	49,762	-	49,762	-
Loan receivable	367,772	-	367,772	-
Prepaid expenses	1,872,948	-	1,872,948	-
Restricted cash	325,000	-	325,000	-
Security deposits	10,050	-	10,050	-
<b>Financial liabilities:</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	704,778	-	704,778	-
Current portion of lease obligation	50,855	-	50,855	-
Current portion of promissory note	3,687,501	-	3,687,501	-
Convertible preferred shares	3,132,461	-	3,132,461	-
Derivative liability	5,469,209	5,469,209	-	-
Lease obligation	33,756	-	33,756	-
Loan payable	9,726,972	-	9,726,972	-
Promissory note	2,952,951	-	2,952,951	-

There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority.

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Unobservable (supported by little or no market activity) prices.

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies.

## Simply Better Brands Corp.

(Formerly PureK Holdings Corp.)

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

For the Three Months Ended March 31, 2021

(Expressed in United States Dollars)

### 24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Fair value (continued)

The levels of the fair value inputs used in determining estimated fair value of the Company's financial assets and liabilities at fair value through profit or loss as of March 31, 2021 December 31, 2020 are shown below.

	March 31, 2021	Estimated fair value		
		Level 1 \$	Level 2 \$	Level 3 \$
Current portion of derivative liability	(328,769)	-	-	(328,769)
Derivative liability	(7,891,577)	-	-	(7,891,577)

  

	December 31, 2020	Estimated fair value		
		Level 1 \$	Level 2 \$	Level 3 \$
Derivative liability	(5,469,209)	-	-	(5,469,209)

The financial instrument recorded at fair value on the statement of financial position is derivative liability which is measured using Level 3 of the fair value hierarchy. Level 3 inputs for other derivative liability include the use of the Black-Scholes option pricing model. Estimates are made regarding (i) the discount rate used, (ii) the expected life of the instruments, (iii) the volatility of the Company's common shares price which are driven by historical information and the expected dividend yield. Refer to Notes 10, 11 and 16 for further disclosures.

As of March 31, 2021 and December 31, 2020, there were no financial assets or liabilities measured and recognized in the statement of financial position at fair value that would be categorized as Level 1 and Level 2 in the fair value hierarchy above.

#### Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of being affected by these risks. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk. When material, these risks are also reviewed and monitored by the Board of Directors.

#### Market risk

- Foreign currency risk

The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in US\$. The Company has not entered into any foreign currency contracts to mitigate this risk. The risk is measured using sensitivity analysis and cash flow forecasting.

As of March 31, 2021, the majority of the Company's monetary assets and liabilities are denominated in US\$; as a result, management believes the currency risk is minimal.

The Company's derivative liability may expose to the currency risk as the Company's share is trading in CA\$. Based on the sensitivity analysis, assuming that all other variables remain constant, a 10% appreciation or depreciation of the US\$ against CA\$ would provide insignificant impacts on the fair value of the derivative liability.

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### 24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Financial risk management (continued)

##### Market risk (continued)

- **Price risk**

The Company's derivative liability may be exposed to the price risk as the share price of the Company is one of the inputs of valuation. Based on the sensitivity analysis, assuming that all other variables remain constant, a 10% increase (decrease) in the share price of the Company as of March 31, 2021, the fair value of the derivative liability will be increased (decreased) by appropriately \$1,100,000.

- **Interest rate risk**

The Company's interest rate risk principally arises from fluctuations in the US\$ LIBOR rate as it relates to the Company's loan payable. A 1% change in the US\$ LIBOR rate would result in approximately a \$100,000 impact on the Company's profit or loss for the three months ended March 31, 2021. The Company has not entered into any interest rate swaps to mitigate this risk.

The Company's derivative liability may expose to the interest as the risk-free interest rate is one of the inputs of valuation. Based on the sensitivity analysis, assuming that all other variables remain constant, a 1% increase (decrease) in the risk-free interest rate, the fair value of the derivative liability will be increased (decreased) by appropriately \$81,000.

##### **Credit risk**

Credit risk is the risk of loss associated with a customer's or counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Cash is held with reputable United States financial institutions, from which management believes the risk of loss is remote. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments. The Company has, and intends, to adhere strictly to the state statutes and regulations in its operations.

The Company believes that the credit risk of accounts receivable is limited as the majority of the accounts receivable as of March 31, 2021 are current and collected subsequent to March 31, 2021.

##### **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due. As of March 31, 2021, the Company had cash of \$6,395,246 to meet short-term business requirements. As of March 31, 2021, the Company had current liabilities of \$9,010,918. The Company believes that the liquidity risk is low as the Company has sufficient working capital to support the operation in the next twelve months.

**Simply Better Brands Corp.**

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**25. SUBSEQUENT EVENTS**

- On May 4, 2021, the Company issued a promissory note for cash proceeds of \$630,000. The promissory note bears interest at 9% per annum and matures on May 4, 2022. At the maturity date, the note holder may convert the promissory note to the common shares of the Company at the price of the VWAP of the Company's common shares on the Exchange during the 15 days trading days immediately preceding the maturity date.
- Subsequent to March 31, 2021, convertible notes with a principal value of \$2,328,050, of which \$328,050 were issued in connection with the Acquisition of Nirvana, were converted into common shares.