SIMPLY BETTER BRANDS CORP.

(FORMERLY PUREK HOLDINGS CORP.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 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 six months ended June 30, 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	Note(s)	June 30, 2021 $	December 31, 2020 $
ASSETS			
Current assets			
Cash		4,982,425	8,308,475
Accounts receivable	5	354,062	244,419
Other receivable	1	349,198	49,762
Loan receivable	6	389,918	367,772
Prepaid expenses	7	1,313,681	1,872,948
Inventory	8	1,450,621	833,937
		8,839,905	**11,677,313**
Non-current assets			
Restricted cash	16	325,000	325,000
Security deposits		10,050	10,050
Equipment		1,728	-
Right-of-use asset	9	53,600	78,338
Trademarks	3	2,720,268	-
Goodwill	3	9,248,099	-
		12,358,745	**413,388**
TOTAL ASSETS		**21,198,650**	**12,090,701**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10	696,811	704,778
Deferred revenue		11,960	44,845
Current portion of derivative liability	11	405,213	-
Current portion of lease obligation	15	59,594	50,855
Current portion of promissory notes	3, 17	7,338,600	3,687,501
Current portion of provision of earn-out payments	3, 4, 18	917,737	-
		9,429,915	**4,487,979**
Long term liabilities			
Convertible notes	3, 4, 12	1,688,679	-
Convertible preferred shares	13	3,613,280	3,132,461
Derivative liability	11	7,636,139	5,469,209
Government loan	14	152,795	-
Lease obligation	15	844	33,756
Loan payable	16	9,908,208	9,726,972
Promissory notes	17	638,536	2,952,951
Provision of earn-out payments	3, 4, 18	1,430,612	-
		25,069,093	**21,315,349**
TOTAL LIABILITIES		**34,499,008**	**25,803,328**

(Expressed in United States Dollars)

As at	Note(s)	June 30, 2021 $	December 31, 2020 $
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	19	4,271,064	1,911,188
Reserves	19	92,089	145,022
Accumulated deficit		(17,665,502)	(16,489,043)
Equity attributable to owners of the company		(13,302,349)	(14,432,833)
Non-controlling interest	19	1,991	720,206
TOTAL SHAREHOLDERS' DEFICIENCY		**(13,300,358)**	**(13,712,627)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		**21,198,650**	**12,090,701**

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These unaudited condensed consolidated interim financial statements were approved for issue on August 30, 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)

		For the three months ended		For the six months ended	
		June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	Note(s)	$	$	$	$
REVENUE		**3,114,937**	**3,961,772**	**5,593,217**	**7,767,269**
COST OF GOODS SOLD		**(1,279,294)**	**(1,406,100)**	**(2,209,060)**	**(2,731,812)**
GROSS MARGIN		**1,835,643**	**2,555,672**	**3,384,157**	**5,035,457**
OPERATING EXPENSES					
Customer service support		39,122	67,477	85,761	130,820
Depreciation expense		12,560	12,369	25,053	24,738
General and administrative expenses		223,116	133,381	388,251	292,334
Marketing expense		1,182,044	1,238,803	2,090,776	2,735,607
Professional fees		304,693	463,873	480,859	692,038
Regulatory and filing fees		99,389	-	197,463	-
Salaries and wages		908,467	349,189	1,578,075	683,951
Travel and entertainment		10,601	363	14,195	7,605
		2,779,992	**2,265,455**	**4,860,433**	**4,567,093**
Income (loss) before other income (expenses)		**(944,349)**	**290,217**	**(1,476,276)**	**468,364**
Other income (expenses)					
Finance costs		(979,079)	(4,043)	(1,575,273)	(8,434)
Foreign exchange loss		21,431	-	21,190	-
Gain on remeasurement of loan payable	16	-	-	7,123	-
Fair value adjustment of derivative liability	11	574,662	-	1,110,587	-
Interest income		1,900	-	22,146	-
		(381,086)	**(4,043)**	**(414,227)**	**(8,434)**
Income (loss) and comprehensive income (loss) for the period		**(1,325,435)**	**286,174**	**(1,890,503)**	**459,930**
Income (loss) and comprehensive income (loss) attributable to:					
Equity holders of the parent		(880,374)	145,948	(1,176,459)	234,564
Non-controlling interests		(445,061)	140,226	(714,044)	225,366
		(1,325,435)	**286,174**	**(1,890,503)**	**459,930**
Earnings (loss) per share	**19**				

Simply Better Brands Corp.
(Formerly PureK Holdings Corp.)
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency) (unaudited)
(Expressed in United States Dollars)

		Share capital						
	Note(s)	Number of shares	Amount	Reserves	Retained earnings (accumulated deficit)	Total	Non-controlling interest	Total
Balance as of December 31, 2020		**21,016,875**	**1,911,188**	**145,022**	**(16,489,043)**	**(14,432,833)**	**720,206**	**(13,712,627)**
Shares issued for cash - exercise of warrants	19	22,500	23,636	-	-	**23,636**	-	**23,636**
Shares issued for conversion of convertible notes	12	457,521	2,283,307	-	-	**2,283,307**	-	**2,283,307**
Reclassification of grant-date fair value on exercise of warrants	19	-	52,933	(52,933)	-	**-**	-	**-**
Distribution to shareholders	19	-	-	-	-	**-**	(4,171)	**(4,171)**
Net loss for the period		-	-	-	(1,176,459)	**(1,176,459)**	(714,044)	**(1,890,503)**
Balance at June 30, 2021		**21,496,896**	**4,271,064**	**92,089**	**(17,665,502)**	**(13,302,349)**	**1,991**	**(13,300,358)**

Balance as of December 31, 2019		**375,000**	**-**	**-**	**1,206,375**	**1,206,375**	**1,201,559**	**2,407,934**
Distribution to shareholders		-	-	-	(350,000)	**(350,000)**	(351,436)	**(701,436)**
Net income for the period		-	-	-	234,564	**234,564**	225,366	**459,930**
Balance at June 30, 2020		**375,000**	**-**	**-**	**1,090,939**	**1,090,939**	**1,075,489**	**2,166,428**

(Expressed in United States Dollars)

	Note(s)	For the six months ended June 30, 2021 $	June 30, 2020 $
Cash flow provided from (used by)			
OPERATING ACTIVITIES			
Net income (loss) for the period		(1,890,503)	459,930
Adjustments for items not affecting cash			
Accretion of interest of convertible notes	12	286,861	-
Accretion of interest of loan payable	16	188,359	-
Accretion of interest of preferred shares	13	480,819	-
Accretion of interest of promissory notes	17	206,684	-
Accretion of interest of provision of earn-out payments	18	407,323	-
Depreciation		25,053	24,738
Impairment loss of property and equipment		-	11,886
Interest income	6	(22,146)	-
Gain on modification of loan payable	16	(7,123)	-
Fair value adjustment of derivative liability	11	(1,110,587)	-
Change in non-cash working capital			
Accounts receivable, credit card processor, net		(46,016)	790,783
Other receivable		(251,057)	-
Prepaid expenses		(917,789)	51,434
Inventory		27,553	266,586
Accounts payable and accrued liabilities		(218,605)	(466,097)
Deferred revenue		(32,885)	(32,474)
Cash flow from (used in) operating activities		**(2,874,059)**	**1,106,786**
INVESTING ACTIVITIES			
Net cash paid for acquisition	3	(905,956)	-
Cash flow used investing activities		**(905,956)**	**-**
FINANCING ACTIVITIES			
Debt issuance costs	12	(171,327)	-
Distribution to shareholders	19	(4,171)	(701,436)
Lease payments	15	(24,173)	(20,066)
Proceeds from government loan		-	109,500
Proceeds on exercise of warrants	19	23,636	-
Proceeds on issuance of promissory notes, net of financing costs	17	630,000	-
Cash flow from (used in) financing activities		**453,965**	**(612,002)**
Increase (decrease) in cash		**(3,326,050)**	**494,784**
Cash, beginning of period		**8,308,475**	**1,061,746**
Cash, end of period		**4,982,425**	**1,556,530**
Supplemental cash flow information	21		

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 April 28, 2021, the Company completed the acquisition of No B.S. Skincare.

See Note 4 for details.

Acquisition of 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. Tru Brands is a health and wellness brand specializing in nutritious snacks for women.

On August 17, 2021 (the "Tru Brands Closing Date"), the Company completed the acquisition. Under the terms of the acquisition, the Company acquired 24,586,477 shares of common stock with $0.001 par value per share of Tru Brands and 25,000,000 shares of Series A preferred stock with $0.001 par value per share of Tru Brands, and satisfied certain outstanding indebtedness of Tru Brands for an aggregate purchase consideration of $7,500,000, paid in the form of issuance of the Company's shares to the shareholders and debtholders of Tru Brands, calculated on the basis of the volume weighted average closing price of the Company's shares on the Exchange determined based on the 10 trading days immediately preceding the Tru Brands Closing Date. In connection with the acquisition, the Company issued 89,462 common shares as finder's fee.

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS (CONTINUED)

Acquisition of TRU Brands Inc. ("Tru Brands") (continued)

Other receivables as at June 30, 2021 included $290,859 which was due from Tru Brands. (December 31, 2020 – $24,750).

Proposed acquisition.

- **Acquisition of Crisp Management Group Inc. ("CMG")**

  On August 20, 2021, the Company entered into a non-binding term sheet (the "CMG Term Sheet") to acquire 60% of CMG to focus on the sale and distribution of CBD and Hemp products through Breakaway Music Festivals in North America as well as through E-commerce.

  Pursuant to the terms of the CMG Term Sheet, the Company will acquire 60% of the outstanding shares of CMG for USD$500,000, to be satisfied through the issuance of common shares of the Company at a price per share equal to the ten (10) trading day volume weighed average price ("VWAP") of the shares on the Exchange in the ten (10) trading days immediately prior to the closing date of the transaction. It is expected that the share consideration will be subject to escrow, with 15% releasable every four months in the first 20-month after the closing date, and the remaining 25% releasable 24 months from the closing date.

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 six months ended June 30, 2021 were approved by the Board of Directors on August 30, 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.

(Expressed in United States Dollars)

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION (CONTINUED)

Basis of presentation

These consolidated financial statements comprise the accounts of the Company and the following subsidiaries of the Company:

	Note(s)	Country of incorporation	Percentage owned June 30, 2021	Percentage owned December 31, 2020	Reporting date
Purekana, LLC ("PureKana")		USA	50.10%	50.10%	December 31
No B.S. Skincare ("No B.S. Skincare")	3	USA	82.54%	N/A	December 31
Nirvana Group LLC ("Nirvana")	4	USA	100.00%	N/A	December 31

New accounting standards

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

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

As discussed in Note 1, on February 18, 2021 (the "No BS 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 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)
Fair value of net assets acquired	**511,841**
Goodwill	**9,248,099**
	9,759,940

(Expressed in United States Dollars)

3. ACQUISITION OF NO B.S. LIFE, LLC (CONTINUED)

	$
Consideration comprised of:	
Cash*	2,500,000
Promissory note (Note 17)	500,000
Convertible notes (Note 12)	4,000,000
Fair value of earn-out payments (Note 18)	2,759,940
	9,759,940

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

4. ACQUISITION OF NIRVANA GROUP, LLC

As discussed in Note 1, on February 17, 2021 (the "NG Closing Date"), the Company entered into a definitive agreement ("the NG Agreement") to acquire Nirvana (the "Acquisition of NG"), 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 NG Agreement, the Company acquired all of the issued and outstanding membership units of Nirvana (the "Acquisition of NG"), for the total consideration paid of $2,720,268.

	$
Consideration comprised of:	
Convertible notes (Note 12)	1,500,000
Fair value of earn-out payments (Note 18)	1,220,268
	2,720,268

The acquisition constitutes an asset acquisition as the Company does not meet the definition of a business, as defined in IFRS 3, "Business Combinations".

The total consideration of $2,720,268 have been allocated to trademarks.

5. ACCOUNTS RECEIVABLE

Following is the aging of the Company's account receivable as of June 30, 2021 and December 31, 2020:

	Total	Neither past due nor impaired	< 90 days	91 - 181 days	>180 days
	$	$	$	$	$
June 30, 2021	**354,062**	231,630	89,788	32,644	-
December 31, 2020	**244,419**	244,419	-	-	-

(Expressed in United States Dollars)

5. ACCOUNTS RECEIVABLE (CONTINUED)

As at June 30, 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 June 30, 2021 and December 31, 2020 were remitted to the Company subsequent to June 30, 2021 and December 31, 2020, respectively.

During the six months ended June 30, 2021 and 2020, no impairment of receivable was recognized.

6. LOAN RECEIVABLE

	$
As at December 31, 2020	**367,772**
Interest	22,146
As at June 30, 2021	**389,918**

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

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

During the six months ended June 30, 2021, the Company recognized interest income of $22,146 related to the TB Promissory Note (June 30, 2020 – $nil).

As of June 30, 2021, the carrying value of the TB Promissory Notes was $389,918 (December 31, 2020 – $367,772).

The TB Promissory Notes were settled in connection with the Acquisition of TRU Brands Inc on August 17, 2021.

(Expressed in United States Dollars)

7. PREPAID EXPENSES

	June 30, 2021	December 31, 2020
	$	$
Vendor deposits*	1,087,638	372,948
Others	226,043	-
Deposit paid to No B.S. Life, LLC for acquisition**	-	1,500,000
	1,313,681	**1,872,948**

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* During the six months ended June 30, 2021, the Company entered into an arms-length agreement with a marketing company for strategic digital media services, marketing and data analytics services. The agreement is for a one-year term. The Company paid $630,000 in consideration for the consulting services. These amounts were initially classified as prepaid expenses and will be expensed when the services are provided. As of June 30, 2021, $630,000 remains in prepaid expenses as vendor deposits.

** See Note 3.

8. 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.

9. RIGHT-OF-USE ASSET

	Cost	Accumulated depreciation	Carrying value
As at December 31, 2020	**131,938**	**(53,600)**	**78,338**
Additions	-	(24,738)	(24,738)
As at June 30, 2021	**131,938**	**(78,338)**	**53,600**

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2021	December 31, 2020
	$	$
Accounts payable	426,588	374,852
Direct deposit payable and credit card	3,955	12,854
Sales tax payable	266,268	317,072
	696,811	**704,778**

(Expressed in United States Dollars)

11. DERIVATIVE LIABILITY

Following is the change of the derivative liability during the six months ended June 30, 2021:

Related to:	Convertible notes (Note 12)	Convertible preferred shares (Note 13)	Provision of earn-out payments (Note 18)	TOTAL
	$	$	$	$
As at December 31, 2020	**-**	**5,469,209**	**-**	**5,469,209**
Addition	2,685,318	-	2,039,182	**4,724,500**
Conversion	(1,041,770)	-	-	**(1,041,770)**
Remeasurement	(285,536)	(472,056)	(352,995)	**(1,110,587)**
As at June 30, 2021	**1,358,012**	**4,997,153**	**1,686,187**	**8,041,352**
Current	**-**	**-**	**405,213**	**405,213**
Long-term	**1,358,011**	**4,997,153**	**1,280,975**	**7,636,139**
As at June 30, 2021	**1,358,011**	**4,997,153**	**1,686,188**	**8,041,352**

The Company recognized the derivative liability for the financial liability issued with an option to convert or settle the liability by issuing the Company's common shares, and the number of shares of the Company to be issued upon the conversion or the settlement would depend on the market price of the common shares of the Company and/or the foreign exchange rate between US$ and CA$ at the date of conversion or settlement. The derivative liability is re-measured at each reporting period.

Convertible notes

- **Acquisition of No B.S (Note 3)**

  In connection with the Acquisition of No B.S., 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 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 “NO BS Conversion Price”)

  For accounting purposes, the Company calculated the fair value of the derivate 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 derivate liability.

(Expressed in United States Dollars)

11. DERIVATIVE LIABILITY (CONTINUED)

- **Acquisition of NG (Note 4)**
  In connection with the Acquisition of NG, the Company issued $1,500,000 3.25% unsecured convertible notes with a maturity date of April 27, 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 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$3.50.
  (the “NG Conversion Price”)

  For accounting purposes, the Company calculated the fair value of the derivate liability at the date of issuance using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.30%, an expected life of 2 years, an expected volatility of 95% and an expected dividend yield of 3.25%, which totaled $799,686 and recorded these values as a derivate liability.

During the six months ended June 30, 2021, convertible notes with a principal value of $2,328,050 were converted into common shares (Note 19); as a result of conversion, the Company remeasured the fair value of the correspondence derivative liability using the Black-Scholes option pricing model with the following weighted average assumptions and reclassified the fair value of $1,041,770 to share capital.

Risk-free interest rate	0.33%
Expected annual volatility	97%
Expected life (in years)	1.78
Expected dividend yield	3.25%
Fair value ($)	1,041,770

Provision of earn-out payments

- **Acquisition of No B.S (Note 3)**
  Pursuant to the NO BS Agreement, the 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 NO BS 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 NO BS Earn-Out Payments”) (collectively the “NO BS Earn-Out Payments”).

  The Company has the option to settle all or a portion of the NO BS Earn-Out Payments in cash or in the form of common shares of the Company valued using NO BS Conversion Price.

(Expressed in United States Dollars)

11. DERIVATIVE LIABILITY (CONTINUED)

Provision of earn-out payments (continued)

- **Acquisition of No B.S (Note 3) (continued)**
  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 the 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

- **Acquisition of NG (Note 4)**
  Pursuant to the NG Agreement, the current members of Nirvana will be eligible to receive earnout compensation of $500,000 payable in the Company's common shares, if sales from Nirvana's products equals or exceeds $1 million for the 2021 fiscal year (the "2021 NG Earn-Out Payments"), and an additional $1 million payable in the Company's common shares if sales from Nirvana's products exceeds USD$2.5 million for the 2022 fiscal year (the "2022 NG Earn-Out Payments") (the "NG Earn-Out Payments").

  The number of common shares to be issued for the NG Earn-Out Payments is determined based on the NG Conversion Price.

  For accounting purposes, the Company calculated the fair value of the derivate liability ($637,753) at the date of issuance using the Black-Scholes option pricing model with the following:

	2021 Earn-Out Payments	2022 Earn-Out Payments
Risk-free interest rate	0.30%	0.30%
Expected annual volatility	92%	96%
Expected life (in years)	0.92	1.92
Expected dividend yield	-	-
Grant date fair value ($)	186,381	451,371

As of June 30, 2021, the Company remeasured the fair value of the derivative liability using the Black-Scholes option pricing model with the following weighted average assumptions:

Related to:	Convertible notes $	Convertible preferred shares $	Provision of earn-out payments $
Risk-free interest rate	0.44%	0.87%	0.44%
Expected annual volatility	96%	95%	97%
Expected life (in years)	1.71	4.43	1.51
Expected dividend yield	3.25%	6.00%	-

(Expressed in United States Dollars)

11. DERIVATIVE LIABILITY (CONTINUED)

During the six months ended June 30, 2021, fair value adjustment of derivative liability of $1,110,587 (June 30, 2020 – $nil) was recorded in the statements of income (loss) and comprehensive income (loss) of with a corresponding decrease in the carrying value of the derivative liability.

As of June 30, 2020, the fair value of derivative liability was $8,041,352 (December 31, 2020 –$5,469,209) of which $405,213 (December 31, 2020 – $nil) was classified as current liability.

12. CONVERTIBLE NOTES

Following is the change of the convertible notes during the six months ended June 30, 2021:

	$
Initial recognition	2,643,355
Finance costs	286,861
Conversion	(1,241,537)
As at June 30, 2021	**1,688,679**

- **Acquisition of No B.S (Note 3)**
  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 NO BS Conversion Price.

  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 commons shares of the Company.

  At the date of issuance, the Company allocated $1,885,632 as a derivate liability (Note 11) and 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.

- **Acquisition of NG (Note 4)**
  In connection with the Acquisition of NG, the Company issued $1,500,000 3.25% unsecured convertible notes with a maturity date of April 27, 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 NG Conversion Price.

(Expressed in United States Dollars)

12. CONVERTIBLE NOTES (CONTINUED)

- **Acquisition of NG (Note 4) (continued)**
  At the date of issuance, the Company allocated $799,686 as a derivate liability (Note 11) and the remaining balance of $700,314 was recorded as convertible notes. The carrying value of the convertible notes is being accreted to $1,500,000 between the date of issuance to April 27, 2023, by the effective interest rate method.

  In connection with the convertible notes, the Company incurred issuance costs of $63,669. These issuance costs are recorded as a reduction of the carrying value of the convertible notes.

During the six months ended June 30, 2021, convertible notes with a principal value of $2,328,050 were converted into common shares (Note 19); as a result of conversion, the Company reclassified the carrying value of the converted convertible notes of $1,241,537 to share capital.

During the six months ended June 30, 2021, accretion expense of $286,861 was recorded as finance cost with a corresponding increase in the carrying value of the convertible notes.

As of June 30, 2021, the carrying value of the convertible notes was $1,688,679 (December 31, 2020 – $nil).

13. CONVERTIBLE PREFERRED SHARES

Following is the change of the convertible preferred shares during the six months ended June 30, 2021:

	$
As at December 31, 2020	**3,132,461**
Finance costs	480,819
As at June 30, 2021	**3,613,280**

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 (Note 11).

During the six months ended June 30, 2021, accretion expense of $480,819 was recorded as finance cost with a corresponding increase in the carrying value of the convertible preferred shares (June 30, 2020 – $nil).

As of June 30, 2021, the carrying value of the convertible preferred shares was $3,613,280 (December 31, 2020 – $3,132,461).

None of these convertible preferred shares were converted during the six months ended June 30, 2021.

(Expressed in United States Dollars)

14. 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 has to be repaid before January 21, 2026.

As at June 30, 2021, the carrying value of the PPP Loan is $152,795 (December 31, 2020 – $nil).

15. LEASE OBLIGATION

As at June 30, 2021, future minimum lease payments for the Company's under finance lease are as follows:

	$
As at December 31, 2020	**84,611**
Add: Finance costs	5,227
Less: Payments	(29,400)
As at June 30, 2021	**60,438**
Current	59,594
Long-term	844
As at June 30, 2021	**60,438**

(Expressed in United States Dollars)

15. LEASE OBLIGATION (CONTINUED)

Minimum lease payments for each fiscal year:	
2021	30,149
2022	35,350
	65,499
Amount representing interest	
2021	(3,467)
2022	(1,594)
	(5,061)
	60,438

16. LOAN PAYABLE

	$
As at December 31, 2020	**9,726,972**
Finance costs	188,359
Gain on modification	(7,123)
As at June 30, 2021	**9,908,208**

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.

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.

(Expressed in United States Dollars)

16. LOAN PAYABLE (CONTINUED)

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 six months ended June 30, 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 six months ended June 30, 2021, the Company recognized $188,359 as finance costs (June 30, 2020 – $nil).

As at June 30, 2021, the carrying value of the Loan is $9,908,208 (December 31, 2020 – $9,726,972).

17. PROMISSORY NOTES

	$
As at December 31, 2020	**6,640,452**
Additions	1,130,000
Finance costs	206,684
As at June 30, 2021	**7,977,136**
Current	7,338,600
Long-term	638,536
As at June 30, 2021	**7,977,136**

During the six months ended June 30, 2021, the Company issued the following promissory notes with a total amount of $1,130,000:

- In connection with the Acquisition of No BS (Note 3), the Company issued an unsecured promissory note of $500,000 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 unsecured promissory note including interest was paid subsequent to June 30, 2021.

- 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, 2023.

In addition, 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 "PK Promissory Notes") which were issued to the PureKana Founders on December 4, 2020.

The PK 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.

(Expressed in United States Dollars)

17. PROMISSORY NOTES (CONTINUED)

During the six months ended June 30, 2021, an interest expense of $206,684 was recorded as finance costs with a corresponding increase in the carrying value of the liability (June 30, 2020 – $nil).

As at December 31, 2020, the carrying value of the Promissory Notes is $7,977,136 (December 31, 2020 – $6,640,452) of which $7,338,600 (December 31, 2020 – $3,687,501) was classified as current liability.

18. PROVISION OF EARN-OUT PAYMENTS

Following is the change of the provision of earn-out payments during the six months ended June 30, 2021:

	$
Initial recognition	1,941,026
Finance costs	407,323
As at June 30, 2021	**2,348,349**
Current	917,737
Long-term	1,430,611
As at June 30, 2021	**2,348,348**

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.

- **Acquisition of No B.S (Note 3)**
  Pursuant to the NO BS Agreement, current members of DTC will be eligible to receive the NO BS Earn-Out Payments.

  The Company valued the NO BS 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 and allocated $1,401,430 as a derivate liability (Note 11) and the remaining balance of $1,385,510 was recorded as provision of earn-out payments.

- **Acquisition of NG (Note 4)**
  Pursuant to the NG Agreement, the current members of Nirvana will be eligible to receive the NG Earn-Out Payments.

  The Company valued the NG Earn-Out Payments based on an analysis using a cash flow model to determine the expected contingent consideration payment as $1,220,268 at the date of acquisition and allocated $637,752 as a derivate liability (Note 11) and the remaining balance of $582,516 was recorded as provision of earn-out payments.

18. PROVISION OF EARN-OUT PAYMENTS

During the six months ended June 30, 2021, accretion expense of $407,323 was recorded as finance cost with a corresponding increase in the carrying value of the provision of earn-out payments.

As of June 30, 2021, the carrying value of the provision of earn-out payments was $2,348,349 of which $917,737 was classified as current liability.

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

As of June 30, 2021, there were 10,320,937 common shares held in escrow.

Issued share capital
As at June 30, 2021, the Company had 21,496,896 common shares (December 31, 2020 – 21,016,875) common shares issued and outstanding.

During the six months ended June 30, 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.

- The Company issued 457,521 common shares for conversion of the convertible notes. As a result of the conversion, the Company reclassified the carrying value of the convertible notes ($1,241,537) (Note 12) and the fair value of the derivative liability of the converted convertible notes ($1,041,770) (Note 11) to share capital.

Subsequent to June 30, 2021
- The Company issued 491,000 common shares for the restricted share units.
- 1,561,407 common shares were issued in connection with the acquisition of Tru Brands (Note 1).

(Expressed in United States Dollars)

19. SHARE CAPITAL (CONTINUED)

Warrants

The changes in warrants during the six months ended June 30, 2021 are as follows:

	Number outstanding	Weighted average exercise price (CA$)
Balance, beginning of period	**22,500**	**1.33**
Exercised	(22,500)	1.33
Balance, end of period	**-**	**-**

Equity Incentive Plan (the "Incentive Plan")

To provide a share-related mechanism to attract, retain and motivate qualified directors, employees and consultants of the Company and its subsidiaries, the Company implemented an Incentive Plan which includes the stock options, Restricted Share Unit ("RSU") Plan and Deferred Share Unit (the "DSU"). 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 issuance under the Incentive Plan is limited to 10% of the Company's outstanding common shares at any one time.

Under the Incentive 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. 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.

The Incentive Plan was approved at the annual general and special meeting held on July 15, 2021.

- **Stock options**

  No options were granted, exercised or cancelled during the six months ended June 30, 2021 and 2020.

  The following summarizes information about stock options outstanding and exercisable as at June 30, 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	0.45
		37,500	**37,500**	**92,089**	**0.45**
Weighted average exercise price (CA$)		**1.33**	**1.33**		

Subsequent to June 30, 2021

On July 27, 2021, the Company granted 1,351,030 options with an exercise price of $5.70 to its officers, employees and consultants. The options are exercisable for a period of five years.

(Expressed in United States Dollars)

19. SHARE CAPITAL (CONTINUED)

Equity incentive plan (continued)

- **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.

  On July 27, 2021, the Company issued 904,100 RSUs to its directors, employees and consultants.

- **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 six months ended June 30, 2021, PureKana made a distribution of $4,171 (June 30, 2020 – $701,436) to its members.

Non-controlling interest

The following schedule shows the effects of the changes in non-controlling interest during the six months ended June 30, 2021:

	$
Balance as of December 31, 2020	**720,206**
Distribution	(4,171)
Share of loss	(714,044)
Balance as of June 30, 2021	**1,991**

Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing the net income (loss) attributable to the common shareholders of the Company by the weighted average number of the common shares issued and outstanding during the period.

Diluted EPS is calculated by dividing the net income (loss) attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares.

	For the three months ended		For the six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	$	$	$	$
Basic and diluted earnings (loss) per share for the period attributable to common shareholders ($ per common share)	**(0.06)**	**0.76**	**(0.09)**	**1.23**
Weighted average number of common shares outstanding	**21,151,880**	**375,000**	**21,151,880**	**375,000**

(Expressed in United States Dollars)

19. SHARE CAPITAL (CONTINUED)

Earnings (loss) per share (continued)

Followings are the breakdown of the number of common shares to be issued as of June 30, 2021, if the underlying instruments are exercised for, converted with or settled with the Company's common shares:

Underlying instrument	Note(s)	Number of shares to be issued
Convertible Notes	12	662,887
Convertible preferred shares	13	2,030,104
Provision of earn-out payments	18	831,800
		3,524,791

During the six month ended June 30, 2021, 3,656,451 potential common shares were not included in the diluted EPS calculation as the impact would be anti-dilutive.

20. FINANCE COSTS

		June 30, 2021	June 30, 2020
	Note(s)	$	$
Accretion of interest of convertible notes	12	286,861	-
Accretion of interest of lease obligation	15	5,227	8,434
Accretion of interest of loan payable	16	188,359	-
Accretion of interest of preferred shares	13	480,819	-
Accretion of interest of promissory notes	17	206,684	-
Accretion of interest of provision of earn-out payments	18	407,323	-
		1,575,273	**8,434**

(Expressed in United States Dollars)

21. SUPPLEMENTAL CASH FLOW INFORMATION

		For the six months ended	
	Note(s)	June 30, 2021 $	June 30, 2020 $
Supplemental cash flow information			
Cash paid during the period for income taxes		-	-
Cash paid during the period for interest		-	-
Convertible notes issued for acquisition	3, 4	5,500,000	-
Fair value of provision of earn-out payments at the date of acquisition		3,980,208	-
Promissory note for acquisition	3	500,000	-
Reclassification of fair value of derivative liability related to the convertible notes	11	2,685,318	-
Reclassification of fair value of derivative liability related to the provision of earn-out payments	11	2,039,182	-
Reclassification of grant-date fair value on exercised warrants		52,933	-
Reclassification of the current portion of derivative liability	11	405,213	-
Reclassification of the current portion of lease obligation	15	8,739	-
Shares issued for conversion of convertible notes	11, 12	2,283,307	-

22. 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 six months ended June 30, 2021 was $441,358 (June 30, 2020 – $139,756).

During the six months June 30, 2021, the Board approved a performance bonus of $128,625 to be paid to the Company's Chief Financial Officer. The amount was paid during the six months June 30, 2021.

Subsequent to June 30, 2021:

- On July 27, 2021, the Company granted 932,030 options with an exercise price of $5.70 to its officers. The options are exercisable for a period of five years.

- On July 27, 2021, the Company issued 345,000 RSUs to its directors.

23. 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.

24. 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 six months ended June 30, 2021 and 2020, 4 and 3 vendors represented more than 75% of the Company's inventory purchases, respectively.

During the six months ended June 30, 2021 and 2020, there were no no significant customers which made up more than 10% of sales.

25. 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 six months ended June 30, 2021. The Company is subject to externally imposed capital requirements in connection with its loan payable, as detailed in Note 16. The Company is in compliance with these capital requirements.

(Expressed in United States Dollars)

26. 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:

	June 30, 2021	FVTPL $	Amortized costs $	FVTOCI $
Financial assets:				
ASSETS				
Cash	4,982,425	-	4,982,425	-
Accounts receivable	354,062	-	354,062	-
Other receivable	349,198	-	349,198	-
Loan receivable	389,918	-	389,918	-
Prepaid expenses	1,313,681	-	1,313,681	-
Restricted cash	325,000	-	325,000	-
Security deposits	10,050	-	10,050	-
Financial liabilities:				
LIABILITIES				
Accounts payable and accrued liabilities	696,811	-	696,811	-
Current portion of derivative liability	405,213	405,213	-	-
Current portion of lease obligation	59,594	-	59,594	-
Current portion of promissory note	7,338,600	-	7,338,600	-
Current portion of provision of earn-out payments	917,737	-	917,737	-
Convertible notes	1,688,679	-	1,688,679	-
Convertible preferred shares	3,613,280	-	3,613,280	-
Derivative liability	7,636,139	7,636,139	-	-
Government loan	152,795	-	152,795	-
Lease obligation	844	-	844	-
Loan payable	9,908,208	-	9,908,208	-
Promissory note	638,536	-	638,536	-
Provision of earn-out payments	1,430,612	-	1,430,612	-

(Expressed in United States Dollars)

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value (continued)

	December 31, 2020	FVTPL $	Amortized costs $	FVTOCI $
Financial assets:				
ASSETS				
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	-
Financial liabilities:				
LIABILITIES				
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.

26. 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 June 30, 2021 and December 31, 2020 are shown below:

		Estimated fair value		
	June 30, 2021	**Level 1 $**	**Level 2 $**	**Level 3 $**
Current portion of derivative liability	(405,213)	-	-	(405,213)
Derivative liability	(7,636,139)	-	-	(7,636,139)

		Estimated fair value		
	December 31, 2020	**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 Note 11 for further disclosures.

As of June 30, 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 June 30, 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.

26. 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 June 30, 2021, the fair value of the derivative liability will be increased (decreased) by appropriately $300,000.

- 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 six months ended June 30, 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 $27,000.

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 June 30, 2021 are current and collected subsequent to June 30, 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 June 30, 2021, the Company had cash of $4,982,425 to meet short-term business requirements. As of June 30, 2021, the Company had current liabilities of $9,429,915. 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.