SIMPLY BETTER BRANDS CORP.

(FORMERLY PUREK HOLDINGS CORP.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 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)	September 30, 2021 $	December 31, 2020 $
ASSETS			
Current assets			
Cash		4,122,511	8,308,475
Accounts receivable	7	529,148	244,419
Other receivable		72,613	49,762
Loan receivable	8	-	367,772
Prepaid expenses	9	1,449,513	1,872,948
Inventory	10	1,256,650	833,937
		7,430,435	**11,677,313**
Non-current assets			
Restricted cash		325,000	325,000
Security deposits		10,050	10,050
Equipment		1,535	-
Right-of-use asset	11	41,230	78,338
Trademarks	4, 5, 6	10,716,648	-
Goodwill	3	9,248,099	-
		20,342,562	**413,388**
TOTAL ASSETS		**27,772,997**	**12,090,701**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	1,364,998	704,778
Deferred revenue		49,287	44,845
Current portion of derivative liability	13	193,178	-
Current portion of lease obligation	17	47,405	50,855
Current portion of promissory notes	19	6,936,255	3,687,501
Current portion of provision of earn-out payments	20	1,067,867	-
		9,658,990	**4,487,979**
Long term liabilities			
Convertible notes	14	1,869,815	-
Convertible preferred shares	15	-	3,132,461
Derivative liability	13	2,231,350	5,469,209
Government loan	16	152,795	-
Lease obligation	17	-	33,756
Loan payable	18	9,989,845	9,726,972
Promissory notes	19	652,557	2,952,951
Provision of earn-out payments	20	1,608,613	-
		16,504,975	**21,315,349**
TOTAL LIABILITIES		**26,163,965**	**25,803,328**

(Expressed in United States Dollars)

As at	Note(s)	September 30, 2021 $	December 31, 2020 $
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	21	14,175,683	1,911,188
Obligation to issue shares	13, 15, 21	8,773,067	-
Reserves	21	2,407,108	145,022
Accumulated deficit		(23,386,434)	(16,489,043)
Accumulated other comprehensive loss		(966)	-
Equity attributable to owners of the company		1,968,458	(14,432,833)
Non-controlling interest	21	(359,426)	720,206
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		**1,609,032**	**(13,712,627)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		**27,772,997**	**12,090,701**

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These unaudited condensed consolidated interim financial statements were approved for issue on November 29, 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 nine months ended	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	Note(s)	$	$	$	$
REVENUE		**3,540,260**	**2,869,892**	**9,133,477**	**10,637,161**
COST OF GOODS SOLD		**(1,529,689)**	**(1,027,154)**	**(3,738,749)**	**(3,758,966)**
GROSS MARGIN		**2,010,571**	**1,842,738**	**5,394,728**	**6,878,195**
OPERATING EXPENSES					
Customer service support		22,200	47,619	107,961	178,439
Depreciation expense	11	12,563	12,370	37,616	37,108
General and administrative expenses		279,507	132,642	667,758	424,976
Marketing expense		1,431,423	896,589	3,522,199	3,632,196
Professional fees		357,157	(93,809)	838,016	598,229
Regulatory and filing fees		96,444	-	293,907	-
Salaries and wages		762,765	409,941	2,340,840	1,093,892
Share-based payment	21	4,457,409	-	4,457,409	-
Travel and entertainment		8,324	1,008	22,519	8,613
		7,427,792	**1,406,360**	**12,288,225**	**5,973,453**
Income (loss) before other income (expenses)		**(5,417,221)**	**436,378**	**(6,893,497)**	**904,742**
Other income (expenses)					
Acquisition-related costs	5	(420,754)	-	(420,754)	-
Finance costs		(998,202)	(3,679)	(2,573,475)	(12,113)
Foreign exchange loss		(15,220)	-	5,970	-
Gain on remeasurement of loan payable	18	16,041	-	23,164	-
Fair value adjustment of derivative liability	13	729,041	-	1,839,628	-
Interest income	8	(2,147)	-	19,999	-
Listing expenses		-	(509,906)	-	(509,906)
Others		26,113	-	26,113	-
		(665,128)	**(513,585)**	**(1,079,355)**	**(522,019)**
Net income (loss)		**(6,082,349)**	**(77,207)**	**(7,972,852)**	**382,723**
Other comprehensive income (loss)					
Foreign currency translation differences for foreign operations		(966)	-	(966)	-
Income (loss) and comprehensive income (loss) for the period		**(6,083,315)**	**(77,207)**	**(7,973,818)**	**382,723**

(Expressed in United States Dollars)

		For the three months ended		For the nine months ended	
		September 30, 2021	**September 30, 2020**	**September 30, 2021**	**September 30, 2020**
		$	**$**	**$**	**$**
Income (loss) and comprehensive income (loss) attributable to:					
Equity holders of the parent		(5,721,898)	(42,820)	(6,898,357)	191,744
Non-controlling interests	21	(361,417)	(34,387)	(1,075,461)	190,979
		(6,083,315)	**(77,207)**	**(7,973,818)**	**382,723**
Earnings (loss) per share	**21**	**(0.27)**	**(0.21)**	**(0.37)**	**1.02**

(Expressed in United States Dollars)

		Share capital								
	Note(s)	Number of shares	Amount	Obligation to issue shares	Reserves	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	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 acquisition	5, 6, 21	1,674,975	7,612,229	-	-	-	-	**7,612,229**	-	**7,612,229**
Shares issued for cash - exercise of warrants	21	22,500	23,636	-	-	-	-	**23,636**	-	**23,636**
Shares issued for conversion of convertible notes	14	457,521	2,283,307	-	-	-	-	**2,283,307**	-	**2,283,307**
Shares issued for services	21	29,680	150,000	-	-	-	-	**150,000**	-	**150,000**
Reclassification of grant-date fair value on exercise of warrants	21	-	52,933	-	(52,933)	-	-	**-**	-	**-**
Reclassification of grant-date fair value on issue of shares for the restricted shares units	21	472,100	2,142,390	-	(2,142,390)	-	-	**-**	-	**-**
Reclassification of convertible preferred shares and associated derivative liability to obligation to issue shares	13, 15, 21	-	-	8,773,067	-	-	-	**8,773,067**	-	**8,773,067**
Share-based payments	21	-	-	-	4,457,409	-	-	**4,457,409**	-	**4,457,409**
Distribution to shareholders	21	-	-	-	-	-	-	**-**	(4,171)	**(4,171)**
Net loss for the period		-	-	-	-	(6,897,391)	-	**(6,897,391)**	(1,075,461)	**(7,972,852)**
Other comprehensive loss for the year		-	-	-	-	-	(966)	**(966)**	-	**(966)**
Balance at September 30, 2021		**23,673,651**	**14,175,683**	**8,773,067**	**2,407,108**	**(23,386,434)**	**(966)**	**1,968,458**	**(359,426)**	**1,609,032**

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)**	(378,850)	**(728,850)**
Net income for the period		-	-	-	-	191,744	-	**191,744**	190,979	**382,723**
Balance at September 30, 2020		**375,000**	**-**	**-**	**-**	**1,048,119**	**-**	**1,048,119**	**1,013,688**	**2,061,807**

Simply Better Brands Corp.
(Formerly PureK Holdings Corp.)
Condensed Consolidated Interim Statements of Cash Flows (unaudited)
(Expressed in United States Dollars)

		For the nine months ended	
		September 30, 2021	**September 30, 2020**
	Note(s)	**$**	**$**
Cash flow provided from (used by)			
OPERATING ACTIVITIES			
Net income (loss) for the period		(7,972,852)	382,723
Adjustments for items not affecting cash			
Accretion of interest of convertible notes	14	467,997	-
Accretion of interest of loan payable	18	286,037	-
Accretion of interest of preferred shares	15	752,823	-
Accretion of interest of promissory notes	19	323,970	-
Accretion of interest of provision of earn-out payments	20	735,454	-
Acquisition costs paid by common shares	5	407,500	-
Depreciation	11	37,616	37,108
Impairment loss of property and equipment		-	11,886
Interest income	8	(19,999)	-
Gain on modification of loan payable	18	(23,164)	-
Fair value adjustment of derivative liability	13	(1,839,628)	-
Share-based payments		4,457,409	-
Shares issued for services		150,000	-
Change in non-cash working capital			
Accounts receivable, credit card processor, net		(87,096)	796,017
Other receivable		33,404	(20,000)
Prepaid expenses		(1,033,271)	(5,268)
Inventory		292,920	366,855
Accounts payable and accrued liabilities		(381,425)	(570,675)
Deferred revenue		4,442	(32,137)
Cash flow from (used in) operating activities		**(3,407,863)**	**966,509**
INVESTING ACTIVITIES			
Net cash paid for acquisition of No B.S. Life, LLC	3	(905,956)	-
Cash assumed on acquisition of TRU Brands Inc., less transaction costs	5	192,958	-
Cash flow used in investing activities		**(712,998)**	**-**
FINANCING ACTIVITIES			
Debt issuance costs		(171,327)	-
Distribution to shareholders		(4,171)	(728,850)
Lease payments	17	(37,206)	(30,937)
Proceeds from government loan		-	109,500
Proceeds on exercise of warrants		23,636	-
Proceeds on issuance of promissory notes, net of financing costs	18	630,000	-
Repayment of promissory notes	19	(505,610)	-
Cash flow used in financing activities		**(64,678)**	**(650,287)**
Effects of exchange rate changes on cash and cash equivalents		(425)	-
Increase (decrease) in cash		**(4,185,964)**	**316,222**
Cash, beginning of period		**8,308,475**	**1,061,746**
Cash, end of period		**4,122,511**	**1,377,968**

Supplemental cash flow information	23

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 Nirvana. See Note 4 for details.

Acquisition of TRU Brands Inc. ("Tru Brands")
On August 17, 2021, the Company completed the acquisition of Tru Brands. See Note 5 for details.

Acquisition of Crisp Management Group Inc. ("CMG")
On September 17, 2021, the Company completed the acquisition of CMG. See Note 6 for details.

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 nine months ended September 30, 2021 were approved by the Board of Directors on November 29, 2021.

(Expressed in United States Dollars)

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.

Basis of presentation

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

			Percentage owned		
	Note(s)	Country of incorporation	September 30, 2021	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
Tru Brands US Corp ("Tru Brands")	5	USA	100.00%	N/A	December 31
Tru Brands Snack Company ("TBS")	5	Canada	100.00%	N/A	December 31
Crisp Management Group Inc. ("CMG")	6	USA	60%	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 ("NO BS")

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".

(Expressed in United States Dollars)

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

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

	$
Consideration comprised of:	
Cash*	2,500,000
Promissory note (Note 19)	500,000
Convertible notes (Note 14)	4,000,000
Fair value of earn-out payments (Note 20)	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 ("NG")

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 14)	1,500,000
Fair value of earn-out payments (Note 20)	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.

(Expressed in United States Dollars)

5. ACQUISITION OF TRU BRANDS INC. ("TRU BRANDS")

On March 3, 2021, the Company entered into a binding term sheet 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 issued 1,471,945 common shares with fair value of $6,704,729 (the "TB Exchange Consideration") to acquire 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.

In connection with the acquisition, the Company issued 89,462 common shares with fair value of $407,500 as finder's fee (the "TB Finders' Shares").

The TB Exchange Consideration and TB Finders' Shares (collectively the "TB Locked-Up Securities") are subject to a 24-month lock-up agreement (the "Lock-Up) and will released as follows:

- 25% of the Locked-Up Securities shall be released from the Lock-Up on February 17, 2022 which is the six-month anniversary of the Tru Brands Closing Date;
- 25% of the Locked-Up Securities shall be released from the Lock-Up on August 17, 2022 which is the twelve-month anniversary of the Tru Brands Closing Date;
- 25% of the Locked-Up Securities shall be released from the Lock-Up on February 17, 2023 which is the eighteen-month anniversary of the Tru Brands Closing Date; and
- 25% of the Locked-Up Securities shall be released from the Lock-Up on August 17, 2023 which is the twenty-four-month anniversary of the Tru Brands Closing Date.

In addition, the Company assumed the $387,771 loan payable owned by Tru Brands to PureKana.

The Acquisition of Tru Brands 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	192,958
Accounts receivable, credit card processor, net	134,504
Other receivable	7,944
Prepaid expenses	20,350
Inventory	71,564
Accounts payable and accrued liabilities	(831,200)
Fair value of net assets acquired	**(403,880)**
Trademark	**7,496,380**
	7,092,500

(Expressed in United States Dollars)

5. ACQUISITION OF TRU BRANDS INC. ("TRU BRANDS") (CONTINUED)

	$
Consideration comprised of:	
Indebtedness owed to Purekana, LLC assumed by the Company	387,771
Fair value of common shares issued	6,704,729
	7,092,500

The fair value of the TB Finders' Shares ($407,500) and the associated acquisition costs of $13,254 was charged to the statement of income (loss) and comprehensive income (loss) during the nine months ended September 30, 2021 as acquisition-related costs.

6. ACQUISITION OF CRISP MANAGEMENT GROUP INC. ("CMG")

On August 20, 2021, the Company entered into a non-binding 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. The acquisition was completed on September 17, 2021 (the "CMG Closing Date").

On the CMG Closing Date, the Company issued 113,568 with fair value of $500,000 (the "CMG Share Consideration") to acquire 60% of the outstanding shares of CMG.

The CMG Share Consideration is subject to escrow and will be released with 15% releasable every four months in the first twenty months after the CMG Closing Date, and the remaining 25% releasable twenty-four months from the CMG Closing Date.

The acquisition constitutes an asset acquisition as the Company does not meet the definition of a business, as defined in IFRS 3, "Business Combinations" and is accounted for in accordance with guidance provided IFRS 2, "Share-Based Payment".

The total consideration of $500,000 have been allocated to trademarks.

7. ACCOUNTS RECEIVABLE

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

	Total	Neither past due nor impaired	< 90 days	91 - 181 days	>180 days
	$	$	$	$	$
September 30, 2021	**529,148**	117,220	196,830	215,098	-
December 31, 2020	**244,419**	244,419	-	-	-

(Expressed in United States Dollars)

7. ACCOUNTS RECEIVABLE (CONTINUED)

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

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

8. LOAN RECEIVABLE

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 nine months ended September 30, 2021, the Company recognized interest income of $19,999 related to the TB Promissory Note (September 30, 2020 – $nil).

As discussed in Note 5, in connection with the acquisition of Tru Brands, the Company assumed the $387,771 loan payable owned by Tru Brands to PureKana.

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

9. PREPAID EXPENSES

	September 30, 2021 $	December 31, 2020 $
Vendor deposits *	1,441,900	372,948
Others	7,613	-
Deposit paid to No B.S. Life, LLC for acquisition **	-	1,500,000
	1,449,513	**1,872,948**

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* During the nine months ended September 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 September 30, 2021, $630,000 remains in prepaid expenses as vendor deposits.

** See Note 3.

(Expressed in United States Dollars)

10. 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.

11. RIGHT-OF-USE ASSET

	Cost	Accumulated depreciation	Carrying value
As at December 31, 2020	**131,938**	**(53,600)**	**78,338**
Additions	-	(37,108)	(37,108)
As at September 30, 2021	**131,938**	**(90,708)**	**41,230**

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2021 $	December 31, 2020 $
Accounts payable	1,066,022	374,852
Direct deposit payable and credit card	18,734	12,854
Sales tax payable	280,242	317,072
	1,364,998	**704,778**

13. DERIVATIVE LIABILITY

Following is the change of the derivative liability during the nine months ended September 30, 2021:

Related to:	Convertible notes (Note 14) $	Convertible preferred shares (Note 15) $	Provision of earn-out payments (Note 20) $	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	(498,055)	(581,426)	(760,147)	**(1,839,628)**
Reclassification to obligation to issue shares	-	(4,887,783)	-	**(4,887,783)**
As at September 30, 2021	**1,145,493**	**-**	**1,279,035**	**2,424,528**
Current	**-**	**-**	**193,178**	**193,178**
Long-term	**1,145,493**	**-**	**1,085,857**	**2,231,350**
As at September 30, 2021	**1,145,493**	**-**	**1,279,035**	**2,424,528**

13. DERIVATIVE LIABILITY (CONTINUED)

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.

- **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.

(Expressed in United States Dollars)

13. DERIVATIVE LIABILITY (CONTINUED)

During the nine months ended September 30, 2021, convertible notes with a principal value of $2,328,050 were converted into common shares (Note 21); 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.

- **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.

(Expressed in United States Dollars)

13. DERIVATIVE LIABILITY (CONTINUED)

Provision of earn-out payments (continued)

- **Acquisition of NG (Note 4) (continued)**
  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 September 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	0.52%	0.98%	0.52%
Expected annual volatility	83%	93%	80%
Expected life (in years)	1.46	4.18	1.35
Expected dividend yield	3.25%	6.00%	-

During the nine months ended September 30, 2021, fair value adjustment of derivative liability of $1,839,628 (September 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.

On September 30, 2021, the Company completed a conversion agreement with the convertible preferred shares holders to convert the entire convertible preferred shares into common shares. As a result, the Company reclassified the fair value ($4,887,783) of derivative liability associated with the convertible preferred shares at the conversion date to obligation to issue shares (Note 21).

As of September 30, 2021, the fair value of derivative liability was $2,424,528 (December 31, 2020 –$5,469,209) of which $193,178 (December 31, 2020 – $nil) was classified as current liability.

(Expressed in United States Dollars)

14. CONVERTIBLE NOTES

Following is the change of the convertible notes during the nine months ended September 30, 2021:

	$
Initial recognition	2,643,355
Finance costs	467,997
Conversion	(1,241,537)
As at September 30, 2021	**1,869,815**

- **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 13) 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.

  At the date of issuance, the Company allocated $799,686 as a derivate liability (Note 13) 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.

(Expressed in United States Dollars)

14. CONVERTIBLE NOTES (CONTINUED)

During the nine months ended September 30, 2021, convertible notes with a principal value of $2,328,050 were converted into common shares (Note 21); 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 nine months ended September 30, 2021, accretion expense of $467,997 was recorded as finance cost with a corresponding increase in the carrying value of the convertible notes.

As of September 30, 2021, the carrying value of the convertible notes was $1,869,815 (December 31, 2020 – $nil).

15. CONVERTIBLE PREFERRED SHARES

Following is the change of the convertible preferred shares during the nine months ended September 30, 2021:

	$
As at December 31, 2020	**3,132,461**
Finance costs	752,823
Reclassification to obligation to issue shares	**(3,885,284**)

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 13).

During the nine months ended September 30, 2021, accretion expense of $752,823 was recorded as finance cost with a corresponding increase in the carrying value of the convertible preferred shares (September 30, 2020 – $nil).

On September 30, 2021, the Company completed a conversion agreement with the convertible preferred shares holders to convert the entire convertible preferred shares ($8,200,000) into common shares. As a result, the Company reclassified the carrying value ($4,887,783) of the convertible preferred shares at the conversion date to obligation to issue shares (Note 21).

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

(Expressed in United States Dollars)

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

17. LEASE OBLIGATION

As at September 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	7,194
Less: Payments	(44,400)
As at September 30, 2021	**47,405**
Current	47,405
Long-term	-
As at September 30, 2021	**47,405**

(Expressed in United States Dollars)

17. LEASE OBLIGATION (CONTINUED)

Minimum lease payments for each fiscal year:	
2021	15,150
2022	35,350
	50,500
Amount representing interest	
2021	(1,501)
2022	(1,594)
	(3,095)
	47,405

18. LOAN PAYABLE

	$
As at December 31, 2020	**9,726,972**
Finance costs	286,037
Gain on modification	(23,164)
As at September 30, 2021	**9,989,845**

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)

18. 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 nine months ended September 30 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 $23,164.

During the nine months ended September 30, 2021, the Company recognized $286,037 as finance costs (September 30, 2020 – $nil).

As at September 30, 2021, the carrying value of the Loan is $9,989,845 (December 31, 2020 – $9,726,972).

19. PROMISSORY NOTES

	$
As at December 31, 2020	**6,640,452**
Additions	1,130,000
Finance costs	323,970
Payments	(505,610)
As at September 30, 2021	**7,588,812**
Current	6,936,255
Long-term	652,557
As at September 30, 2021	**7,588,812**

During the nine months ended September 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 with an amount of $505,610 was paid during the nine months ended September 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)

19. PROMISSORY NOTES (CONTINUED)

During the nine months ended September 30, 2021, an interest expense of $323,970 was recorded as finance costs with a corresponding increase in the carrying value of the liability (September 30, 2020 – $nil).

As at September 30, 2021, the carrying value of the Promissory Notes is $7,588,812 (December 31, 2020 – $6,640,452) of which $6,936,255 (December 31, 2020 – $3,687,501) was classified as current liability.

20. PROVISION OF EARN-OUT PAYMENTS

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

	$
Initial recognition	1,941,026
Finance costs	735,454
As at September 30, 2021	**2,676,480**
Current	1,067,867
Long-term	1,608,613
As at September 30, 2021	**2,676,480**

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 13) 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 13) and the remaining balance of $582,516 was recorded as provision of earn-out payments.

20. PROVISION OF EARN-OUT PAYMENTS

During the nine months ended September 30, 2021, accretion expense of $735,454 was recorded as finance cost with a corresponding increase in the carrying value of the provision of earn-out payments.

As of September 30, 2021, the carrying value of the provision of earn-out payments was $2,676,480 of which $1,067,867 was classified as current liability.

21. 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 September 30, 2021, there were 10,320,937 common shares held in escrow.

Issued share capital

As at September 30, 2021, the Company had 23,673,651 common shares (December 31, 2020 – 21,016,875) common shares issued and outstanding.

During the nine months ended September 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.

- The Company issued the TB Exchange Consideration to acquire 100% of the issued and outstanding shares of Tru Brands (Note 5).

- In connection with the acquisition of Tru Brands, the Company issued the TB Finders' Shares (Note 5).

- The Company issued the CMG Share Consideration to acquire 60% of the outstanding shares of CMG (Note 6).

- The Company issued 29,680 common shares with fair value of $150,000 for advisory services.

- The Company issued 472,100 with fair value of $2,142,390 for the restricted share unit.

(Expressed in United States Dollars)

21. SHARE CAPITAL (CONTINUED)

Issued share capital (continued)

On September 30, 2021, the Company completed a conversion agreement with the convertible preferred shares holders to convert the entire convertible preferred shares ($8,200,000) into common shares. 2,327,833 common shares were issued for the conversion of the $8,200,000 convertible preferred shares subsequent to September 30, 2021 (Note 15).

Warrants

The changes in warrants during the nine months ended September 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**

  The changes in stock options during the nine months ended September 30, 2021, are as follows:

	Number outstanding	Weighted average exercise price ($)
Balance, beginning of period	**37,500**	**1.33**
Granted	1,351,030	5.70
Balance, end of period	**1,388,530**	**5.58**

During the nine months ended September 30, 2021

- On July 26, 2021, the Company granted 932,030 options with an exercise price of CA$5.70 to its officers of the Company. The options are exercisable for a period of five years. One-third vest on date of grant and one-third will vest every nine months thereafter.

(Expressed in United States Dollars)

21. SHARE CAPITAL (CONTINUED)

Equity incentive plan (continued)

- **Stock options (continued)**

  - On July 26, 2021, the Company granted 419,000 options with an exercise price of CA$5.70 to its employees and consultants of the Company. The options are exercisable for a period of five years. One-third vest will vest every anniversary thereafter.

The estimated grant date fair value of the options granted during the nine months ended September 30, 2021 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Number of options granted	**1,351,030**
Risk-free interest rate	**0.73%**
Expected annual volatility	**95%**
Expected life (in years)	**5.00**
Expected dividend yield	**0%**
Grant date fair value per option ($)	**3.20**
Share price at grant date ($)	**5.70**

During the nine months ended September 30, 2021, the Company recognized share-based payments expense arising from the stock options of $4,457,409 (September 30, 2020 – $nil).

The following summarizes information about stock options outstanding and exercisable as at September 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	0.20
July 26, 2026	5.70	1,351,030	310,678	4,324,107	4.82
		1,388,530	**348,178**	**4,416,195**	**4.70**
Weighted average exercise price (CA$)		**5.58**	**5.23**		

- **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 472,000 RSUs with fair value of $2,142,390 to its directors, employees and consultants. All of the RSUs granted vested immediately at the date of grant. During the nine months ended September 30, 2021, the Company issued 472,100 common shares for the RSUs.

(Expressed in United States Dollars)

21. SHARE CAPITAL (CONTINUED)

Equity incentive plan (continued)

- **RSU (continued)**

  - On July 27, 2021, the Company issued 432,000 RSUs with fair value of $1,960,416 to its employees and consultants. One-fourth vest on date of grant and one-fourth will vest every six months thereafter.

  During the nine months ended September 30, 2021, the Company recognized share-based payments expense arising from the RSUs of $2,955,835 (September 30, 2020 – $nil).

  As of September 30, 2021, the Company had 432,000 RSUs, of which 108,000 were vested, issued and outstanding.

  Subsequent to September 30, 2021, the Company issued 13,125 common shares for the vested RSUs

- **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 nine months ended September 30, 2021, PureKana made a distribution of $4,171 (September 30, 2020 – $728,850) to its members.

Non-controlling interest

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

	$
Balance as of December 31, 2020	**720,206**
Distribution	(4,171)
Share of loss	(1,075,461)
Balance as of September 30, 2021	**(359,426)**

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.

(Expressed in United States Dollars)

21. SHARE CAPITAL (CONTINUED)

Earnings (loss) per share (continued)

	For the three months ended		For the nine months ended	
	September 30, 2021 $	September 30, 2020 $	September 30, 2021 $	September 30, 2020 $
Basic and diluted earnings (loss) per share for the period attributable to common shareholders ($ per common share)	**(0.27)**	**(0.21)**	**(0.37)**	**1.02**
Weighted average number of common shares outstanding	**22,609,563**	**375,000**	**21,643,114**	**375,000**

Followings are the breakdown of the number of common shares to be issued as of September 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	14	732,974
Convertible preferred shares *	15, 21	2,327,833
Provision of earn-out payments	20	919,746
		3,980,553

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* The number of shares represents the actual number of shares issued subsequent to September 30, 2021.

During the nine months ended September 30, 2021, 3,980,553 potential common shares were not included in the diluted EPS calculation as the impact would be anti-dilutive.

22. FINANCE COSTS

	Note(s)	September 30, 2021 $	September 30, 2020 $
Accretion of interest of convertible notes	14	467,997	-
Accretion of interest of lease obligation	17	7,194	-
Accretion of interest of loan payable	18	286,037	-
Accretion of interest of preferred shares	15	752,823	-
Accretion of interest of promissory notes	19	323,970	-
Accretion of interest of provision of earn-out payments	20	735,454	-
		2,573,475	**-**

(Expressed in United States Dollars)

23. SUPPLEMENTAL CASH FLOW INFORMATION

		For the nine months ended	
		September 30, 2021	September 30, 2020
	Note(s)	$	$
Supplemental cash flow information			
Contribution from shareholders		-	-
Convertible notes issued for acquisition	3, 4	5,500,000	-
Fair value of provision of earn-out payments at the date of acquisition	3, 4	3,980,208	-
Promissory note for acquisition	3	500,000	-
Reclassification of fair value of derivative liability related to the convertible notes	13	2,685,318	-
Reclassification of fair value of derivative liability related to the provision of earn-out payments	13	2,039,182	-
Reclassification of grant-date fair value on exercised warrants		52,933	-
Reclassification of the current portion of derivative liability	13	193,178	-
Reclassification of the current portion of lease obligation		3,450	-
Reclassification of the prepaid expenses related to the acquisition of No BS Life, LLC.	3	1,500,000	-
Shares issued for conversion of convertible notes	13, 14	2,283,307	-
Reclassification of the current portion of promissory notes	19	6,936,255	-
Reclassification of convertible preferred shares and associated derivative liability to obligation to issue shares		8,773,067	-
Shares issued for acquisition	5, 6	7,204,729	-
Shares issued for restricted share units		2,142,390	-

24. 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 nine months ended September 30, 2021 was $644,569 (September 30, 2020 – $206,894).

<u>During the nine months ended September 30, 2021</u>

- 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 nine months September 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 with fair value of $1,353,411 which will amortize over the vesting period (Note 21).

- On July 27, 2021, the Company issued 345,000 RSUs with fair value of $1,565,610 to its directors (Note 21). The fair value of the RSUs will amortize over the vesting period.

25. 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.

26. 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 nine months ended September 30, 2021 and 2020, 5 and 4 vendors represented more than 75% of the Company's inventory purchases, respectively.

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

27. 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 nine months ended September 30, 2021. The Company is subject to externally imposed capital requirements in connection with its loan payable, as detailed in Note 18. The Company is in compliance with these capital requirements.

(Expressed in United States Dollars)

28. 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:

	September 30, 2021	FVTPL $	Amortized costs $	FVTOCI $
Financial assets:				
ASSETS				
Cash	4,122,511	-	4,122,511	-
Accounts receivable	529,148	-	529,148	-
Other receivable	72,613	-	72,613	-
Prepaid expenses	1,449,513	-	1,449,513	-
Restricted cash	325,000	-	325,000	-
Security deposits	10,050	-	10,050	-
Financial liabilities:				
LIABILITIES				
Accounts payable and accrued liabilities	1,364,998	-	1,364,998	-
Current portion of derivative liability	193,178	193,178	-	-
Current portion of lease obligation	47,405	-	47,405	-
Current portion of promissory note	6,936,255	-	6,936,255	-
Current portion of provision of earn-out payments	1,067,867	-	1,067,867	-
Convertible notes	1,869,815	-	1,869,815	-
Convertible preferred shares	-	-	-	-
Derivative liability	2,231,350	2,231,350	-	-
Government loan	152,795	-	152,795	-
Loan payable	9,989,845	-	9,989,845	-
Promissory note	652,557	-	652,557	-
Provision of earn-out payments	1,608,613	-	1,608,613	-

(Expressed in United States Dollars)

28. 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.

28. 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 September 30, 2021 and December 31, 2020 are shown below:

		Estimated fair value		
	September 30, 2021	**Level 1 $**	**Level 2 $**	**Level 3 $**
Current portion of derivative liability	(193,178)	-	-	(193,178)
Derivative liability	(2,231,350)	-	-	(2,231,350)

		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 13 for further disclosures.

As of September 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 September 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.

28. 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 September 30, 2021, the fair value of the derivative liability will be increased by appropriately $180,000 (decreased by appropriately $167,000).

- 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 nine months ended September 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.

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 September 30, 2021, the Company had cash of $4,122,511 to meet short-term business requirements. As of September 30, 2021, the Company had current liabilities of $9,658,990. 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.