SIMPLY BETTER BRANDS CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

(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, 2022 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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(Expressed in United States Dollars)

As at	Note(s)	September 30, 2022 $	December 31, 2021 $
ASSETS			
Current assets			
Cash		1,926,058	2,234,993
Accounts receivable	4	2,542,426	399,665
Other receivable		571,207	1,150
Prepaid expenses	5	1,423,072	2,050,835
Inventory	6	3,204,186	1,981,187
		9,666,949	**6,667,830**
Non-current assets			
Restricted cash		325,000	325,000
Security deposits		3,783	12,299
Equipment		228,959	1,343
Right-of-use asset		-	28,861
Intangible assets	7	12,227,697	9,532,764
Goodwill	3	13,540,827	5,237,161
		26,326,266	**15,137,428**
TOTAL ASSETS		**35,993,215**	**21,805,258**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	2,977,875	2,083,359
Deferred revenue		20,426	82,763
Loan payable	9	12,804,281	11,558,676
Current portion of derivative liability	10	87,654	-
Current portion of lease obligation		-	33,756
Current portion of promissory notes	11	1,870,019	4,752,059
Current portion of convertible notes	10	1,681,645	-
		19,441,900	**18,510,613**
Long term liabilities			
Convertible notes	10	400,251	3,135,054
Promissory notes	11	-	1,182,484
Deferred income tax liability		1,032,000	1,032,000
		1,432,251	**5,349,538**
TOTAL LIABILITIES		**20,874,151**	**23,860,151**

Simply Better Brands Corp.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(Expressed in United States Dollars)

As at	Note(s)	September 30, 2022 $	December 31, 2021 $
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	12	45,411,501	23,121,479
Share subscription received	12	250,000	-
Reserves	12	5,512,299	3,413,209
Additional paid-in capital	12	85,495	85,495
Accumulated deficit		(34,136,831)	(27,269,441)
Accumulated other comprehensive loss		(19,293)	(1,170)
Equity attributable to owners of the company		17,103,171	(650,428)
Non-controlling interest	12	(1,984,107)	(1,404,465)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		**15,119,064**	**(2,054,893)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		**35,993,215**	**21,805,258**

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These unaudited condensed consolidated interim financial statements were approved for issue on November 29, 2022 by the Board of Directors and signed on its behalf by:

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

(Expressed in United States Dollars)

		For the three months ended		For the nine months ended	
		September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021 (Restated - Note 2)
	Note(s)	$	$	$	$
REVENUE		**13,434,493**	**3,540,260**	**42,400,279**	**9,133,477**
COST OF GOODS SOLD		**(4,609,614)**	**(1,529,689)**	**(13,911,043)**	**(3,738,749)**
GROSS MARGIN		**8,824,879**	**2,010,571**	**28,489,236**	**5,394,728**
OPERATING EXPENSES					
Amortization expense	7	564,189	226,689	1,355,067	377,815
Customer service support		507,878	22,200	1,492,102	107,961
Depreciation expense		7,036	12,563	36,690	37,616
General and administrative expenses		598,912	279,507	1,492,021	667,758
Marketing expense		6,169,345	1,431,423	21,359,703	3,522,199
Professional fees		599,710	357,157	1,773,172	838,016
Regulatory and filing fees		13,715	96,444	210,259	293,907
Salaries and wages		1,018,857	762,765	2,963,752	2,340,840
Share-based payment	12	825,388	4,457,409	3,501,340	4,457,409
Travel and entertainment		26,470	8,324	100,293	22,519
		10,331,500	**7,654,481**	**34,284,399**	**12,666,040**
Loss before other income (expenses)		**(1,506,621)**	**(5,643,910)**	**(5,795,163)**	**(7,271,312)**
Other income (expenses)					
Acquisition-related costs	3	-	(420,754)	(476,446)	(420,754)
Finance costs	13	(327,048)	(618,263)	(867,791)	(1,807,361)
Foreign exchange gain (loss)		(15,336)	(15,220)	(107,094)	5,970
Gain (loss) on remeasurement of loan payable	9	200	16,041	(597,019)	23,164
Fair value adjustment of derivative liability	10	160,849	237,959	160,849	837,956
Gain on settlement of the milestone shares	3	428,656	-	428,656	-
Grant and other assistance		-	-	409,145	-
Impairment of receivable		(163,440)	-	(163,440)	-
Interest income		65	(2,147)	(8,729)	19,999
Others		-	26,113	-	26,113
Write-off of advance payments	5	-	-	(430,000)	-
		83,946	**(776,271)**	**(1,651,869)**	**(1,314,913)**
Net loss for the period		**(1,422,675)**	**(6,420,181)**	**(7,447,032)**	**(8,586,225)**
Other comprehensive loss					
Foreign currency translation differences for foreign operations		(13,518)	(966)	(18,123)	(966)
Loss and comprehensive loss for the period		**(1,436,193)**	**(6,421,147)**	**(7,465,155)**	**(8,587,191)**

(Expressed in United States Dollars)

		For the three months ended		For the nine months ended	
		September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021 (Restated - Note 2)
	Note(s)	$	$	$	$
Loss and comprehensive loss attributable to:					
Equity holders of the parent		(1,322,799)	(6,027,669)	(6,885,513)	(7,495,025)
Non-controlling interests	12	(113,394)	(393,478)	(579,642)	(1,092,166)
		(1,436,193)	**(6,421,147)**	**(7,465,155)**	**(8,587,191)**
Basic and diluted loss per share for the period attributable to common shareholders ($ per common share)		**(0.04)**	**(0.28)**	**(0.23)**	**(0.40)**
Weighted average number of common shares outstanding		**37,546,891**	**22,609,563**	**31,795,187**	**21,643,114**

Simply Better Brands 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	Share subscription received	Obligation to issue shares	Reserves	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total	Non-controlling interest	Total
Balance as of December 31, 2021		**26,066,432**	**23,121,479**	**-**	**-**	**3,413,209**	**85,495**	**(27,269,441)**	**(1,170)**	**(650,428)**	**(1,404,465)**	**(2,054,893)**
Shares issued for acquisition	3, 12	4,471,385	16,580,836	-	-	-	-	-	-	**16,580,836**	-	**16,580,836**
Shares issued for cash - private placement	12	10,646,928	2,430,485	-	-	-	-	-	-	**2,430,485**	-	**2,430,485**
Share issue costs	12	-	(151,628)	-	-	-	-	-	-	**(151,628)**	-	**(151,628)**
Share subscribed	12	-	-	250,000	-	-	-	-	-	**250,000**	-	**250,000**
Shares issued for conversion of convertible notes	10, 12	283,527	1,025,162	-	-	-	-	-	-	**1,025,162**	-	**1,025,162**
Shares issued for promissory notes	11, 12	140,351	506,702	-	-	-	-	-	-	**506,702**	-	**506,702**
Shares issued for services	12, 16	329,443	425,000	-	-	-	-	-	-	**425,000**	-	**425,000**
Fair value of milestone shares issued to Hervé	3, 12	213,219	71,215	-	-	-	-	-	-	**71,215**	-	**71,215**
Reclassification of grant-date fair value on issue of shares for the restricted shares units	12	309,000	1,402,250	-	-	(1,402,250)	-	-	-	**-**	-	**-**
Share-based payments	12	-	-	-	-	3,501,340	-	-	-	**3,501,340**	-	**3,501,340**
Net loss for the period		-	-	-	-	-	-	(6,867,390)	-	**(6,867,390)**	(579,642)	**(7,447,032)**
Other comprehensive loss for the period		-	-	-	-	-	-	-	(18,123)	**(18,123)**	-	**(18,123)**
Balance at September 30, 2022		**42,460,285**	**45,411,501**	**250,000**	**-**	**5,512,299**	**85,495**	**(34,136,831)**	**(19,293)**	**17,103,171**	**(1,984,107)**	**15,119,064**

(Expressed in United States Dollars)

		Share capital										
	Note(s)	Number of shares	Amount	Share subscription received	Obligation to issue shares	Reserves	Additional paid-in capital	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	12	1,674,975	7,612,229	-	-	-	-	-	-	**7,612,229**	-	**7,612,229**
Shares issued for cash - exercise of warrants	12	22,500	23,636	-	-	-	-	-	-	**23,636**	-	**23,636**
Shares issued for conversion of convertible notes	12	457,521	2,203,035	-	-	-	-	-	-	**2,203,035**	-	**2,203,035**
Shares issued for services	12	29,680	150,000	-	-	-	-	-	-	**150,000**	-	**150,000**
Reclassification of grant-date fair value on exercise of warrants	12	-	52,933	-	-	(52,933)	-	-	-	**-**	-	**-**
Reclassification of grant-date fair value on issue of shares for the restricted shares units	12	472,100	2,142,390	-	-	(2,142,390)	-	-	-	**-**	-	**-**
Reclassification of convertible preferred shares and associated derivative liability to obligation to issue shares	12	-	-	-	8,773,067	-	-	-	-	**8,773,067**	-	**8,773,067**
Share-based payments	12	-	-	-	-	4,457,409	-	-	-	**4,457,409**	-	**4,457,409**
Distribution to shareholders		-	-	-	-	-	-	-	-	**-**	(4,171)	**(4,171)**
Net loss for the period		-	-	-	-	-	-	(7,495,025)	-	**(7,495,025)**	(1,092,166)	**(8,587,191)**
Other comprehensive loss for the year		-	-	-	-	-	-	-	(966)	**(966)**	-	**(966)**
Balance at September 30, 2021		**23,673,651**	**14,095,411**	**-**	**8,773,067**	**2,407,108**	**-**	**(23,984,068)**	**(966)**	**1,290,552**	**(376,131)**	**914,421**

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

		For the nine months ended	
		September 30, 2022	September 30, 2021 (Restated - Note 2)
	Note(s)	$	$
Cash flow provided from (used by)			
OPERATING ACTIVITIES			
Net loss for the period		(7,447,032)	(8,586,225)
Adjustments for items not affecting cash			
Accretion of interest of convertible notes	10	150,578	246,071
Accretion of interest of loan payable	9	414,598	286,037
Accretion of interest of preferred shares		-	752,823
Accretion of interest of promissory notes	11	258,812	331,563
Accretion of interest of provision of earn-out payments		-	183,673
Acquisition costs paid by common shares	3, 12	237,862	407,500
Acquisition-related costs	3	238,584	-
Amortization	7	1,355,067	377,815
Depreciation		36,690	37,616
Write-off of advance payments	5	430,000	-
Interest income		-	(19,999)
Gain on modification of loan payable	9	597,019	(23,164)
Fair value adjustment of derivative liability	10	(160,849)	(837,956)
Gain on settlement of the milestone shares	3	(428,656)	-
Unrealized loss (gain) on convertible notes	10	(28,130)	-
Share-based payments	12	3,501,340	4,457,409
Shares issued for services	12, 16	475,000	150,000
Impairment of accounts receivable		163,440	-
Debt issuance costs		41,035	-
Change in non-cash working capital			
Accounts receivable		(2,255,978)	(87,096)
Other receivable		(394,451)	33,404
Prepaid expenses		317,914	(1,033,271)
Security deposits		8,516	-
Inventory		(549,697)	292,920
Accounts payable and accrued liabilities		89,908	(381,425)
Deferred revenue		(66,242)	4,442
Cash flow used in operating activities		**(3,014,672)**	**(3,407,863)**
INVESTING ACTIVITIES			
Net cash paid for acquisition of No B.S. Life, LLC		-	(905,956)
Cash assumed on acquisition, less transaction costs	3	1,811,839	192,958
Purchase of equipment		(6,520)	-
Proceeds of redemption of investments	3	1,863,691	-
Cash flow from (used in) investing activities		**3,669,010**	**(712,998)**

(Expressed in United States Dollars)

	Note(s)	For the nine months ended September 30, 2022 $	September 30, 2021 (Restated - Note 2) $
FINANCING ACTIVITIES			
Debt issuance costs		(41,035)	(171,327)
Distribution to shareholders		-	(4,171)
Lease payments		(33,756)	(37,206)
Proceeds on exercise of warrants		-	23,636
Proceeds on issuance of common shares, net of cash share issue costs	12	2,278,857	-
Proceeds on issuance of promissory notes	11	300,000	630,000
Proceeds on loan payable	9	4,455,843	-
Proceeds on issuance of convertible notes, net of transaction costs	10	661,950	-
Repayment of promissory notes	11	(4,116,634)	(505,610)
Repayment of loan payable	9	(4,214,406)	-
Repayment of convertible notes	10	(553,665)	-
Share subscription received	12	250,000	-
Cash flow used in financing activities		**(1,012,846)**	**(64,678)**
Effects of exchange rate changes on cash		49,573	(425)
Decrease in cash		**(308,935)**	**(4,185,964)**
Cash, beginning of period		**2,234,993**	**8,308,475**
Cash, end of period		**1,926,058**	**4,122,511**

Supplemental cash flow information 14

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.

Business combination

- ***Acquisition of Hervé Edibles Limited ("Hervé")***
  On March 18, 2022, the Company completed an acquisition of Hervé Edibles Limited ("Hervé"). Pursuant to the share price agreement, the Company issued 1,705,755 common shares ("Hervé Consideration Shares") with fair value of $6,342,974 (CA$8,000,000) to acquire all of the issued and outstanding common shares of Hervé.

  See Note 3 for details.

- ***Acquisition of The BRN Group Inc. ("BRN")***
  On April 1, 2022, the Company completed an acquisition of The BRN Group Inc. ("BRN"). Pursuant to the terms of the acquisition, the Company acquired of all of the issued and outstanding common shares of The BRN Group Inc. ("BRN") in exchange for an aggregate of 2,701,669 common shares of the Company ("BRN Consideration Shares") for a total purchase price of $10 million.

  See Note 3 for details.

Going Concern
These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Realization values may be substantially different from carrying values as shown and the financial statements do not given effect to adjustments that would be necessary to the carrying values and the classification of assets and liabilities should the Company be unable to continue operating as a going concern. Such adjustments could be material.

1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

Going Concern (continued)

At September 30, 2022, the Company had an accumulated deficit of $34,136,831 (December 31, 2021 – $27,269,441) and a working capital deficit of $9,774,951 (December 31, 2021 – $11,842,783). The Company incurred a net loss of $7,447,032 during the nine months ended September 30, 2022. These circumstances raise material uncertainties which may cast substantial doubt as to the ability of the Company to meet its ongoing obligations as they come due, and accordingly, the appropriateness of the use of the accounting principles applicable to a going concern. The Company's ability to continue as a going concern is dependent upon its ability to raise adequate financing to meet its present and future commitments and to generate profitable operations in the future.

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.

2. SIGNIFICANT ACCOUNTING STANDARDS AND BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements of the Company for the nine months ended September 30, 2022 were approved by the Board of Directors on November 29, 2022.

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, 2021.

Restatement of consolidated financial information for the nine months ended September 30, 2021

During the year ended December 31, 2021, the Company revised the purchase price allocation regarding the acquisition of No B.S. Life, LLC. ("No B.S."); as a result of the revision, the Company restated the financial information for the nine months ended September 30, 2021 to reflect the effect of the revision.

(Expressed in United States Dollars)

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

Restatement of consolidated financial information for the nine months ended September 30, 2021 (continued)

The following table summarizes the impact of the statements of loss and comprehensive loss for the nine months ended September 30, 2021 and the statements of cash flow for the nine months ended September 30, 2021:

Effect on statements of loss and comprehensive loss

	For the three months ended September 30, 2021		
	As previously presented	**Change**	**As restated**
	$	**$**	**$**
Amortization expense	-	(226,689)	(226,689)
Finance costs	(998,202)	379,939	(618,263)
Gain (loss) on remeasurement of derivative liability	729,041	(491,082)	237,959
Loss for the period	(6,082,349)	(337,832)	(6,420,181)
Total comprehensive loss	(6,083,315)	(337,832)	(6,421,147)

	For the nine months ended September 30, 2021		
	As previously presented	**Change**	**As restated**
	$	**$**	**$**
Amortization expense	-	(377,815)	(377,815)
Finance costs	(2,573,475)	766,114	(1,807,361)
Gain (loss) on remeasurement of derivative liability	1,839,628	(1,001,672)	837,956
Loss for the period	(7,972,852)	(613,373)	(8,586,225)
Total comprehensive loss	(7,973,818)	(613,373)	(8,587,191)

Effect on statements of cash flows

	For the nine months ended September 30, 2021		
	As previously presented	**Change**	**As restated**
	$	**$**	**$**
OPERATING ACTIVITIES			
Loss for the period	(7,972,852)	(613,373)	(8,586,225)
Accretion of interest of convertible notes	467,997	(221,926)	246,071
Accretion of interest of promissory notes	323,970	7,593	331,563
Accretion of interest of provision of earn-out payments	735,454	(551,781)	183,673
Amortization expense	-	377,815	377,815
Fair value adjustment of derivative liability	(1,839,628)	1,001,672	(837,956)
Gain (loss) on remeasurement of derivative liability	-	-	-
Cash flow used in operating activities	(3,407,863)		(3,407,863)

There were no changes in cash flows provided by investing and financing activities.

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

New accounting standards

There were no new or amended IFRS pronouncements effective January 1, 2022 that impacted these condensed consolidated interim financial statements.

3. BUSINESS COMBINATION

Acquisition of Hervé Edibles Limited ("Hervé")

As discussed in Note 1, on March 18, 2022, the Company completed an acquisition of Hervé and issued 1,705,755 common shares with fair value of $6,342,974 (CA$8,000,000) to acquire all of the issued and outstanding common shares of Hervé. The fair value of the shares issued was calculated on the basis of the Volume-Weighted-Average-Price ("VWAP") of the Company's shares on the TSXV determined based on the 15 trading days immediately preceding the closing date.

In addition, additional Hervé Consideration Shares with the value of CA$1,000,000 may be issued upon the Company achieving specific sales revenue targets of Hervé products (the "Hervé Milestone Shares"). The Company considered the Hervé Milestone Shares as "contingent consideration" at the date of acquisition and accounts this contingent consideration 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. The Company valued the contingent consideration based on an analysis using a cash flow model to determine the expected contingent consideration payment as $499,871 at the date of acquisition and was recorded as provision.

The Hervé Consideration Shares are subject to a contractual lock-up for a period of 6 months from the date of issuance, with 1/12 of the consideration being released from the transfer restrictions every month for 12 months thereafter.

In connection with the acquisition, the Company issued 63,961 common shares, which are subject to a statutory 4-month hold period, with fair value of $237,862 (CA$300,000) as finders' fee. The fair value of the shares issued was calculated on the basis of VWAP of the Company's shares on the TSXV determined based on the 15 trading days immediately preceding the closing date. The fair value of the shares issued was recognized as acquisition-related costs in the consolidated statement of loss and comprehensive loss during the nine months ended September 30, 2022.

During the nine months ended September 30, 2022, the Company entered into a settlement with the former owner of Hervé to settle the Hervé Milestone Shares by issuing 213,219 common shares of the Company with a fair value of $71,215. As a result of the settlement, the Company recognized a gain on settlement of the milestone shares of $428,656 in the consolidated statement of loss and comprehensive loss during the nine months ended September 30, 2022.

(Expressed in United States Dollars)

3. BUSINESS COMBINATION (CONTINUED)

Acquisition of Hervé Edibles Limited ("Hervé") (continued)

The total consideration of $6,842,845 have been initially allocated as follows:

	$
Cash	530,631
Accounts receivable	58,478
Other receivable	42,578
Prepaid expenses	174,873
Inventory	300,690
Equipment	227,801
Trademark	1,640,000
Developed technology	1,290,000
Accounts payable and accrued liabilities	(316,345)
Fair value of net assets acquired	**3,948,706**
Goodwill	**2,894,139**
	6,842,845

	$
Consideration comprised of:	
Fair value of common shares issued	6,342,974
Fair value of the milestone shares to be issued	499,871
	6,842,845

The Company is still assessing the purchase price allocation of the acquisition of Hervé. The allocation is subject to change for any additional information received.

Acquisition of The BRN Group Inc. ("BRN")

As discussed in Note 1, on April 1, 2022, the Company completed an acquisition of BRN and acquired of all of the issued and outstanding common shares of BRN in exchange for the BRN Consideration Shares for a total purchase price of $10 million.

$1.5 million of the BRN Consideration Shares have been placed in escrow, subject to release upon the satisfaction of certain conditions. The BRN Consideration Shares issued at the closing date are subject to a contractual lock-up for a period of 6 months from the date of issuance, with 1/12 of the consideration being released from the transfer restrictions every month for 12 months thereafter.

(Expressed in United States Dollars)

3. BUSINESS COMBINATION (CONTINUED)

Acquisition of The BRN Group Inc. ("BRN") (continued)

The total consideration of $10,000,000 have been initially allocated as follows:

	$
Cash	859,792
Accounts receivable	11,440
Other receivable	82,041
Loan receivable (1)	660,000
Prepaid expenses	2,387
Inventory	425,369
Investments (2)	1,863,691
Equipment	20,096
Trademark	1,120,000
Accounts payable and accrued liabilities	(450,438)
Deferred revenue	(3,905)
Fair value of net assets acquired	**4,590,473**
Goodwill	**5,409,527**
	10,000,000

	$
Consideration comprised of:	
Fair value of common shares issued	10,000,000
	10,000,000

(1) The loan receivable of $660,000 was due from the Company prior to the acquisition. Subsequent to the acquisition, this amount was reclassified as an inter-company loan and eliminated during the consolidation.
(2) Subsequent to the consolidation, the Company redeemed the entire investments with proceeds of $1,863,691.

In connection with acquisition of Hervé and BRN, the Company incurred legal fees of $476,446 during the nine months ended September 30, 2022. This amount was recognized as acquisition-related costs in the consolidated statement of loss and comprehensive loss during the nine months ended September 30, 2022.

4. ACCOUNTS RECEIVABLE

Following is the aging of the Company's account receivable as of September 30, 2022 and December 31, 2021:

	Total	Neither past due nor impaired	< 90 days	91 - 181 days	>180 days
	$	$	$	$	$
September 30, 2022	**2,542,426**	1,609,080	440,191	493,155	-
December 31, 2021	**399,665**	84,140	121,335	194,190	-

(Expressed in United States Dollars)

5. PREPAID EXPENSES

	September 30, 2022	December 31, 2021
	$	$
Vendor deposits	1,379,947	1,975,889
Others	43,125	74,946
	1,423,072	**2,050,835**

During the nine months ended September 30, 2022, the Company recognized a write-off of advance payments made to a service provider with an amount of $430,000. This amount was recognized in the statement of loss and comprehensive loss during the nine months ended September 30, 2022.

6. 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.

7. INTANGBILE ASSETS

	Trademark	Developed technology	Customer Base	Non-Competes	Total
	$	$	$	$	$
As at December 31, 2021	**6,716,764**	**-**	**2,316,000**	**500,000**	**9,532,764**
Additions (Note 3)	2,760,000	1,290,000	-	-	**4,050,000**
Amortization	(1,355,067)		-	-	**(1,355,067)**
As at September 30, 2022	**8,121,697**	**1,290,000**	**2,316,000**	**500,000**	**12,227,697**

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2022	December 31, 2021
	$	$
Accounts payable	2,419,273	1,645,442
Direct deposit payable and credit card	64,126	30,886
Payroll liabilities	1,092	-
Sales tax payable	493,384	407,031
	2,977,875	**2,083,359**

(Expressed in United States Dollars)

9. LOAN PAYABLE

Line of Credit Agreement

- **No B.S. Life, LLC**

	$
As at December 31, 2021	-
Addition	655,000
Finance costs	31,772
Payments	(414,488)
As at September 30, 2022	**272,284**

During the nine months ended September 30, 2022, the Company through its subsidiary No B.S entered into a line of credit agreement (the "No BS Credit Facility") with a credit facility of $655,000. The No BS Credit Facility bears an interest of 16% per annum calculated daily with no fixed payment term.

During the nine months ended September 30, 2022, the Company withdrew $655,000 and made a repayment of $414,488.

During the nine months ended September 30, 2022, the Company recognized $31,722 as finance costs (September 30, 2021 – $nil).

As of September 30, 2022, the outstanding balance of the No BS Credit Facility, including the accrued interest, was $272,284 (December 31, 2021 – $nil) which was fully repaid subsequent to September 30, 2022.

- **Tru Brands Inc.**

	$
As at December 31, 2021	**1,450,319**
Addition	2,990,000
Finance costs	67,325
Payments	(3,381,623)
As at September 30, 2022	**1,126,021**

During the year ended December 31, 2021, the Company through its subsidiary Tru Brands Inc. (“Tru Brands”) entered into a line of credit agreement (the "TB Credit Facility #1") with a credit facility of $2,500,000. The TB Credit Facility #1 bears an interest of 8% per annum initially, which was subsequently changed to 15%, calculated daily with no fixed payment term.

During the nine months ended September 30, 2022, the Company withdrew $2,990,000 and made a repayment of $3,381,623.

During the nine months ended September 30, 2022, the Company recognized $67,325 as finance costs (September 30, 2021 – $nil).

As of September 30, 2022, the outstanding balance of the TB Credit Facility #1, including the accrued interest, was $1,126,021 (December 31, 2021 – $1,450,319).

9. LOAN PAYABLE (CONTINUED)

(Expressed in United States Dollars)

Line of Credit Agreement (continued)

- **Tru Brands Inc. (continued)**

	$
As at December 31, 2021	-
Additions	700,000
Finance costs	9,308
Payments	(207,690)
As at September 30, 2022	**501,618**

During the nine months ended September 30, 2022, Tru Brands entered into another line of credit agreement (the "TB Credit Facility #2") with a credit facility of $700,000. The TB Credit Facility #2 bears an interest of 14% per annum and calculated daily with no fixed payment term.

During the nine months ended September 30, 2022, the Company withdrew $700,000 and made a repayment of $207,690.

During the nine months ended September 30, 2022, the Company recognized $9,308 as finance costs (September 30, 2021 – $nil).

As of September 30, 2022, the outstanding balance of the TB Credit Facility #2, including the accrued interest, was $501,618 (December 31, 2021 – $nil).

- **Hervé Edibles Limited**

	$
Addition	110,843
Finance costs	4,072
Effect of movements in exchange rates	(7,449)
As at September 30, 2022	**107,466**

During the nine months ended September 30, 2022, the Company through its subsidiary Hervé entered into a line of credit agreement (the "HE Credit Facility") with a credit facility. The HE Credit Facility bears an interest of 12% per annum and calculated daily with no fixed payment term.

During the nine months ended September 30, 2022, the Company withdrew $110,843.

During the nine months ended September 30, 2022, the Company recognized $4,072 as finance costs (September 30, 2021 – $nil).

9. LOAN PAYABLE (CONTINUED)

Line of Credit Agreement (continued)

- **Hervé Edibles Limited (continued)**

  As of September 30, 2022, the outstanding balance of the HE Credit Facility #2, including the accrued interest, was $107,466 (CA$142,400) (December 31, 2021 – $nil) which was fully repaid subsequent to September 30, 2022.

Loan Agreements

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

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

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

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

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

  - On December 11, 2023 – 15% of the PK Loan Amount and the PKL Capitalized Interest
  - On December 11, 2024 – 15% of the PK Loan Amount and the PKL Capitalized Interest
  - On December 11, 2025 – the remaining PK Loan Amount and the PKL Capitalized Interest

  The PK 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 PKL Maturity Date should not be less than 1.20. As of December 31, 2021, to the Company was not in compliance with the Debt service coverage ratio; as a result, the Company reclassified the PK Loan as current.

  Pursuant to the PK 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 PK 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.

(Expressed in United States Dollars)

9. LOAN PAYABLE (CONTINUED)

Loan Agreements (continued)

The changes of the PK Loan during the nine months ended September 30, 2022, are as follows:

	$
As at December 31, 2021	**10,108,357**
Finance costs	302,121
Loss on modification	597,019
Payments	(210,605)
As at September 30, 2022	**10,796,892**

During the nine months ended September 30, 2022, the Company recognized $302,121 as finance costs (September 30, 2021 – $286,037).

During the nine months ended September 30, 2022, the Company made the PKL Quarterly Payments with an amount of $210,605 (September 30, 2021 – $nil).

During the nine months ended September 30, 2022, the Company remeasured the fair value of the PK Loan due to the change of the US$ 3-month LIBOR; as a result, the Company recognized a loss on remeasurement of $597,019 (September 30, 2021 – a gain of $23,164).

As at September 30, 2022, the carrying value of the PK Loan is $10,796,892 which is classified as current liability (December 31, 2021 – $10,108,357).

Subsequent to September 30, 2022, the Company made another PKL Quarterly Payments with an amount of $126,986.

10. CONVERTIBLE NOTES AND DERIVATIVE LIABILITIES

Convertible Notes

	$
As at December 31, 2021	**3,135,054**
Initial recognition	413,447
Finance costs	150,578
Payments	(553,665)
Conversion	(1,025,162)
Interest payable transferred to accounts payable and accrued liabilities	(10,226)
Effect of movements in exchange rates	(28,130)
As at September 30, 2022	**2,081,896**

10. CONVERTIBLE NOTES AND DERIVATIVE LIABILITIES (CONTINUED)

During the nine months ended September 30, 2022

- Convertible notes with a principal value of $1,021,820 including outstanding interest were converted into 283,527 common shares (Note 12); as a result of conversion, the Company reclassified the carrying value of the converted convertible notes of $1,025,162 to share capital.

- The Company repaid the convertible notes with a principal value of $530,100 plus outstanding interest of $23,565.

- The Company issued CA$850,000 ($661,950) 2-year 10% unsecured convertible notes. Interest is payable on each calendar-quarter-end date until maturity (the "Interest Due Date"). Subject to the approval of the Exchange, the outstanding interest may be converted into common shares at the higher of (i) the 15-trading day VWAP on each such applicable payment date or (ii) the market price of the common shares. The convertible notes are convertible at the election of the holder into one common share and a one-half common share purchase warrant for each common share exercisable at CA$0.59 at a conversion price of CA$0.39 per common share. The Company may force the conversion of the convertible notes in the event the VWAP of the common shares on the Exchange is greater than CA$1.00 for any five (5) consecutive trading days.

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

  For accounting purposes, the Company calculated the fair value of the derivative liability ($248,503 (CA$319,038)) at the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions and recorded these values as a derivative liability:

  - Risk-free interest rate of 3.02%
  - Expected life of 2 years
  - Expected volatility of 84% and
  - Expected dividend yield of 10%

  The remaining balance of $413,447 was recorded as convertible notes. The carrying value of the convertible notes is being accreted to the principal amount of the convertible notes share over the two years by the effective interest rate method.

  In connection with the issuance of the issuance of convertible notes, the Company incurred transaction costs of $41,035.

During the nine months ended September 30, 2022, accretion expense of $150,578 (September 30, 2021 – $246,071) was recorded as finance cost with a corresponding increase in the carrying value of the convertible notes.

As of September 30, 2022, the carrying value of the convertible notes was $2,081,896 of which $400,251 was classified as long-term liability (December 31, 2021 – $3,135,054).

(Expressed in United States Dollars)

10. CONVERTIBLE NOTES AND DERIVATIVE LIABILITIES (CONTINUED)

In additions, as of September 30, 2022, the Company remeasured the fair value of the derivative liability using the Black-Scholes option pricing model, assuming a risk-free interest rate of 3.76%, an expected life of 1.8 years, an expected volatility of 82% and an expected dividend yield of 10%, which totaled $87,654. The change in the fair value ($160,849) of the derivative liability was recognized as a gain on remeasurement of derivative liability in the statements of loss and comprehensive loss during the nine months ended September 30, 2022.

11. PROMISSORY NOTES

	$
As at December 31, 2021	**5,934,543**
Additions	300,000
Finance costs	258,812
Payments	
- by cash	(4,116,634)
- by shares	(506,702)
Effect of movements in exchange rates	-
As at September 30, 2022	**1,870,019**

<u>During the nine months ended September 30, 2022</u>

- The Company issued a promissory note for cash proceeds of $300,000. The promissory note bears interest at 12% per annum and matures on March 3, 2023. The Company repaid the principal amount of $300,000 plus outstanding interest of $16,861.

- The Company made payments of $3,260,650 to the promissory notes issued to PureKana founders and a third party on December 4, 2020 (the "PK Promissory Notes"). As of September 30th, the PK founders were fully paid off and the assigned portion of the PureKana founders promissory notes to a third party remained outstanding.

- The Company entered into a debt settlement arrangement with Heavenly Rx LLC to settle the $480,000 promissory note issued on March 3, 2021, by the common shares of the Company. Pursuant to the debt settlement agreement, the principal amount of $480,000 plus outstanding interest of $26,702, was satisfied by issuing 140,351 common shares of the Company (Note 12). As a result of the settlement, the Company reclassified the carrying value of the promissory notes of $506,702 to share capital.

- The Company repaid a promissory note issued December 20, 2021 with a principal amount of $500,000 plus outstanding interest of $39,123.

- An interest expense of $258,812 (September 30, 2021 – $331,563) was recorded as finance costs with a corresponding increase in the carrying value of the liability.

As at September 30, 2022, the carrying value of the promissory notes is $1,870,019 (December 31, 2021 – $5,934,543) of which $1,870,019 (December 31, 2021 – $4,752,059) was classified as current liability.

11. PROMISSORY NOTES (CONTINUED)

Subsequent to September 30, 2022

- The Company entered into an agreement with the third party to settle the payment of the assigned portion of the PK Promissory Notes ($1,166,168). The Company made an initial payment of $300,000 to the assigned portion of the PK Promissory Notes. The agreement calls for monthly payments of $50,000 beginning on December 15, 2022 and continuing until the $1,166,168 is paid in full. The note bears an interest rate of 6%.

- The Company entered into a loan agreement with an amount of $1,000,000. The loan bears 15% interest per annum and will be repaid over 42-months starting November 15th, 2022.

12. 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 (released)
- June 11, 2022: 5,160,468 common shares (released)

As discussed in Note 3, 405,250 BRN Consideration Shares have been placed in escrow, subject to release upon the satisfaction of certain conditions.

As of September 30, 2022, there were 405,250 common shares held in escrow (December 31, 2021 – 5,160,468).

Issued share capital
As at September 30, 2022, the Company had 42,460,285 common shares (1) (December 31, 2021 – 26,066,432) common shares issued and outstanding.

(1) 405,250 common shares were placed in escrow.

During the nine months ended September 30, 2022

- As discussed in Note 3, the Company issued 1,705,755 common shares with fair value of $6,342,974 (CA$8,000,000) to acquire all of the issued and outstanding common shares of Hervé. In connection with the acquisition, the Company issued 63,961 common shares, which are subject to a statutory 4-month hold period, with fair value of $237,862 (CA$300,000) as finders' fee.

12. SHARE CAPITAL (CONTINUED)

Issued share capital (continued)

During the nine months ended September 30, 2022 (continued)

- As discussed in Note 1, on April 1, 2022, the Company completed an acquisition of BRN and acquired of all of the issued and outstanding common shares of BRN in exchange for an aggregate of 2,701,669 common shares of the Company with fair value of $10,000,000 of which 405,250 common shares with fair value of $1,500,000 were placed in escrow. The BRN Consideration Shares issued at the closing date are subject to a contractual lock-up for a period of 6 months from the date of issuance, with 1/12 of the consideration being released from the transfer restrictions every month for 12 months thereafter.

- As discussion in Note 10, the Company issued 283,527 common shares for conversion of the convertible notes. As a result of the conversion, the Company reclassified the carrying value of the convertible notes ($1,025,162) to share capital.

- As discussed in Note 11, on April 21, 2022, the Company issued 140,351 common shares to satisfy the promissory note with a principal amount of $480,000, including outstanding interest of $26,702.

- The Company issued 309,000 common shares with fair value of $1,402,250 for the restricted share unit.

- The Company issued 108,177 common shares with fair value of $375,000 for advisory services.

- The Company completed a non-brokered private placement at a price of CA$0.295 of 10,646,928 common shares for gross proceeds of $2,430,485 (CA$3,140,844).

- Pursuant to the share price agreement of Hervé (Note 3), the Company issued 213,219 common shares as the Hervé Milestone Shares with fair value of $71,215.

- The Company issued 221,266 with fair value of $50,000 pursuant to the Sponsorship Agreement (Note 16).

- In connection with the shares issued, the Company paid $151,628 share issuance costs.

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 2,203,035 to share capital.

- The Company issued 1,471,945 common shares with fair value of $6,704,729 to acquire 100% of the issued and outstanding shares of Tru Brands Inc. and 89,462 common shares with fair value of $407,500 as finder’s fee.

- The Company issued 113,568 with fair value of $500,000 to acquire 60% of the outstanding shares of Crisp Management Group.

(Expressed in United States Dollars)

12. SHARE CAPITAL (CONTINUED)

Issued share capital (continued)

- 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.

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, 2022, are as follows:

	Number outstanding	Weighted average exercise price ($)
Balance, beginning of period	**1,351,030**	**5.70**
Granted	242,000	0.72
Cancelled	(932,030)	5.70
Forfeited	(45,000)	5.70
Balance, end of period	**616,000**	**3.74**

During the nine months ended September 30, 2022

- On February 23, 2022, the Company granted 15,000 options with an exercise price of CA$4.70 to the consultant of the Company. The options are exercisable for a period of five years. One-third vest will vest every anniversary thereafter.

- On August 4, 2022, the Company granted 227,000 options with an exercise price of CA$0.39 to its employees. The options are exercisable for a period of five years. One-third vest will vest every anniversary thereafter.

- The Company entered into an agreement to cancel a total of 932,030 options previously granted to the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). As a result of the cancellation, pursuant to IFRS 2, "Share-Based Payment", the Company recognized the amount that otherwise would have been recognized over the remainder of the vesting period with an amount of $380,352 during the nine months ended September 30, 2022.

(Expressed in United States Dollars)

12. SHARE CAPITAL (CONTINUED)

Equity Incentive Plan (the "Incentive Plan") (continued)

- **Stock options (continued)**

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.

- 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, 2022 and 2021 was calculated using the Black-Scholes option pricing model with the following assumptions:

	For the nine months ended	
	September 30, 2022	**September 30, 2021**
Number of options granted	**242,000**	**1,351,030**
Risk-free interest rate	**2.79%**	**0.73%**
Expected annual volatility	**91%**	**95%**
Expected life (in years)	**5.00**	**5.00**
Expected dividend yield	**0%**	**0%**
Grant date fair value per option ($)	**0.40**	**3.20**
Share price at grant date ($)	**0.72**	**5.70**

During the nine months ended September 30, 2022, the Company recognized share-based payments expense of $1,585,848 (September 30, 2021 – $1,501,574) arising from the stock options.

The following summarizes information about stock options outstanding and exercisable as at September 30, 2022:

Expiry date	Exercise price (CA$)	Options outstanding	Options exercisable	Estimated grant date fair value ($)	Weighted average remaining contractual life (in years)
July 26, 2026	5.70	374,000	124,669	1,197,024	3.82
February 23, 2027	5.70	15,000	-	39,255	4.40
August 4, 2027	0.39	227,000	-	57,749	4.85
		616,000	**124,669**	**1,294,028**	**4.21**
Weighted average exercise price (CA$)		**3.74**	**5.70**		

The weighted average remaining vesting period of the unvested options is 1.57 years.

12. SHARE CAPITAL (CONTINUED)

Equity Incentive Plan (the "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.

  During the nine months ended September 30, 2022

  - On February 23, 2022, the Company issued the following RSUs:
    - 24,370 RSUs with fair value of $93,435 to its employees and consultants. One-third will vest every six months thereafter.
    - 500,000 RSUs with fair value of $1,917,000 to its officers. One-third vest on the first anniversary and one-sixth will vest every six months thereafter.
    - 285,000 RSUs with fair value of $1,092,690 to its directors. One-half vest on the first anniversary and one-sixth will vest every six months thereafter.
    - 50,000 RSUs with fair value of $191,700 to its director. All RSUs granted vest on the first anniversary.
  - The Company issued 900,000 RSUs with fair value of $288,900 to its consultant, directors and officers. One-fourth vest on date of grant and one-fourth will vest every six months thereafter.
  - 8,310 RSUs forfeited.

  During the nine months ended September 30, 2021

  - 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.
  - 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, 2022, the Company recognized share-based payments expense of $1,915,492 (September 30, 2021 – $2,955,835) arising from the RSUs.

  As of September 30, 2022, the Company had 1,860,935 unvested RSUs (December 31, 2021 – 418,875) issued and outstanding.

- **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, 2022, no cash distribution was made by PureKana to its members (September 30, 2021– $4,171).

(Expressed in United States Dollars)

12. SHARE CAPITAL (CONTINUED)

Non-controlling interest

The following schedule shows the effects of the changes in non-controlling interest during the nine months ended September 30, 2022:

	$
Balance as of December 31, 2021	**(1,404,465)**
Share of loss	(579,642)
Balance as of September 30, 2022	**(1,984,107)**

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.

13. FINANCE COSTS

		For the nine months ended	
		September 30, 2022	**September 30, 2021**
	Note(s)	**$**	**$**
Accretion of interest of convertible notes	10	150,578	246,071
Accretion of interest of lease obligation		1,594	7,194
Accretion of interest of loan payable	9	414,598	286,037
Accretion of interest of preferred shares		-	752,823
Accretion of interest of promissory notes	11	258,812	331,563
Accretion of interest of provision of earn-out payments		-	183,673
Debt issuance costs	10	41,035	-
Others		1,174	-
		867,791	**1,807,361**

(Expressed in United States Dollars)

14. SUPPLEMENTAL CASH FLOW INFORMATION

		For the nine months ended	
	Note(s)	September 30, 2022 $	September 30, 2021 $
Supplemental cash flow information			
Cash paid during the year for income taxes		-	-
Cash paid during the year for interest	9, 10 ,11	425,404	-
Convertible notes issued for acquisition		-	5,500,000
Fair value of provision of earn-out payments at the date of acquisition		-	3,980,208
Fair value of milestone shares issued to Hervé	3, 12	71,215	-
Promissory note for acquisition		-	500,000
Reclassification of fair value of derivative liability related to the convertible notes	10	248,503	2,685,318
Reclassification of fair value of derivative liability related to the provision of earn-out payments		-	2,039,182
Reclassification of grant-date fair value on exercised warrants		-	52,933
Reclassification of the current portion of derivative liability		-	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.		-	1,500,000
Reclassification of the current portion of the convertible notes	10	1,681,645	-
Shares issued for conversion of convertible notes	10, 12	1,025,162	2,203,035
Reclassification of the current portion of promissory notes	11	2,882,040	6,936,255
Reclassification of convertible preferred shares and associated derivative liability to obligation to issue shares		-	8,773,067
Interest payable transferred to accounts payable and accrued liabilities	10	10,226	-
Shares issued for acquisition	3, 12	16,342,974	7,204,729
Initial recognition of provision	3	499,871	-
Shares issued for restricted share units	12	1,402,250	2,142,390
Shares issued for promissory notes	11, 12	506,702	-

15. 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, 2022 was $559,665 (September 30, 2021 – $644,569).

<u>During the nine months ended September 30, 2022</u>

The Company issued the following RSUs to its directors and officers:

- 500,000 RSUs with fair value of $1,917,000 to its officers. One-third vest on the first anniversary and one-sixth will vest every six months thereafter.

- 285,000 RSUs with fair value of $1,092,690 to its directors. One-half vest on the first anniversary and one-sixth will vest every six months thereafter.

- 50,000 RSUs with fair value of $191,700 to its director. All RSUs granted vest on the first anniversary.

- 900,000 RSUs with fair value of $288,900 to its officers and directors. One-sixth will vest every six months after the grant date.

The fair value of the RSUs will amortize over the vesting period.

<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.

- 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.

- The Company issued 345,000 RSUs with fair value of $1,565,610 to its directors. The fair value of the RSUs will amortize over the vesting period.

16. COMMITMENTS

On March 1, 2022, the Company through No B.S. entered into a brand ambassador agreement (the "Sponsorship Agreement") with Julianna, the mixed martial artist who won the UFC Women's Bantamweight Championship this past December and was named MMA Junkie's Female Fighter of the Year.

Pursuant to the Sponsorship Agreement, Julianna agreed to act as a brand ambassador for No B.S., providing certain online posts, endorsements and social media content. In consideration for the services provided under the Sponsorship Agreement, No B.S. agreed to pay Julianna an engagement fee of $100,000 (the "Engagement Fee"), a royalty fee equal to 10% of the gross revenues generated from sales achieved by No B.S. from certain sales, and a one-time bonus of $25,000 in the event the campaign generates a minimum of $500,000 in gross revenues. Each of these amounts is payable in common shares of the Company or cash, at the discretion of No B.S. and subject to approval of the Exchange. The Engagement Fee is payable in four equal installments, to be paid quarterly commencing on May 1, 2022. The other fees will be payable upon achievement of the associated sales targets. The number of common shares will be determined based on the higher of i) the 10-day VWAP of the common shares on the payment date and ii) the discounted market price as defined by the Exchange Policy 1.1.

During the nine months ended September 30, 2022, the Company issued 221,266 with fair value of $50,000 for the first two installments of the Engagement Fee.

17. 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.

18. 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, 2022 and 2021, 4 and 5 vendors represented more than 75% of the Company's inventory purchases, respectively.

During the nine months ended September 30, 2022, there was one customer which made up more than 10% of sales (September 30, 2021 – none).

(Expressed in United States Dollars)

19. 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, 2022. The Company is subject to externally imposed capital requirements in connection with its loan payable, as detailed in Note 9. As of September 30, 2022, the Company was not in compliance with these financial covenants.

20. 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, 2022 $	FVTPL $	Amortized costs $	FVTOCI $
Financial assets:				
ASSETS				
Cash	1,926,058	-	1,926,058	-
Accounts receivable	2,542,426	-	2,542,426	-
Other receivable	571,207	-	571,207	-
Restricted cash	325,000	-	325,000	-
Security deposits	3,783	-	3,783	-
Financial liabilities:				
LIABILITIES				
Accounts payable and accrued liabilities	2,977,875	-	2,977,875	-
Current portion of derivative liability	87,654	87,654	-	-
Current portion of promissory notes	1,870,019	-	1,870,019	-
Current portion of convertible notes	1,681,645	-	1,681,645	-
Loan payable	12,804,281	-	12,804,281	-
Convertible notes	400,251	-	400,251	-

(Expressed in United States Dollars)

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value (continued)

	December 31, 2021 $	FVTPL $	Amortized costs $	FVTOCI $
Financial assets:				
ASSETS				
Cash	2,234,993	-	2,234,993	-
Accounts receivable	399,665	-	399,665	-
Other receivable	1,150	-	1,150	-
Restricted cash	325,000	-	325,000	-
Security deposits	12,299	-	12,299	-
Financial liabilities:				
LIABILITIES				
Accounts payable and accrued liabilities	2,083,359	-	2,083,359	-
Current portion of lease obligation	33,756	-	33,756	-
Current portion of promissory notes	4,752,059	-	4,752,059	-
Loan payable	11,558,676	-	11,558,676	-
Convertible notes	3,135,054	-	3,135,054	-
Promissory notes	1,182,484	-	1,182,484	-

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.

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, 2022 are shown below:

		Estimated fair value		
	September 30, 2022	Level 1 $	Level 2 $	Level 3 $
Current portion of derivative liability	(87,654)	-	-	(87,654)

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 10 for further disclosures.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value (continued)

As of September 30, 2022 and December 31, 2021, 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 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, 2022, 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.

- 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, 2022 would provide insignificant impacts on the fair value of the derivative liability.

- 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 nine months ended September 30, 2022. 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 would provide insignificant impacts on the fair value of the derivative liability.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial risk management

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 and Canada 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, 2022, the Company had cash of $1,926,058 to meet short-term business requirements. As of September 30, 2022, the Company had current liabilities of $19,441,900 (Note 1 – Going Concern).