

Condensed Interim Consolidated Financial Statements of

CE Brands Inc.

As at and for the three months ended June 30, 2021
and 2020 (unaudited)

(expressed in Canadian dollars)

CE Brands Inc.

Condensed Interim Consolidated Statements of Financial Position (unaudited)

As at:

		June 30, 2021	March 31, 2021
Assets	Note		
<i>Current assets</i>			
Cash		\$ 5,414,642	\$ 397,337
Accounts receivable	4	192,314	243,490
Inventory		1,664,977	1,882,353
Prepaid expenses and deposits		465,290	311,452
		7,737,223	2,834,632
Property, plant and equipment		300,129	361,983
Intangible assets		464,900	719,947
Goodwill		9,092,686	9,223,203
Total assets		\$ 17,594,938	\$ 13,139,765
Liabilities			
<i>Current liabilities</i>			
Accounts payable and accrued liabilities		\$ 2,776,238	\$ 5,905,618
Due to related parties	5	313,889	318,684
Warrant obligations	6	67,955	506,968
Convertible debenture derivatives	6	-	1,702,434
Current portion of long-term debt	6	2,638,294	7,249,959
		5,796,376	15,683,663
Long-term debt	6	1,412,264	1,388,750
Total liabilities		\$ 7,208,640	\$ 17,072,413
Shareholders' Equity (Deficiency)			
Share capital	9	31,207,768	18,860,572
Equity component of convertible debt		1,007,207	1,009,951
Warrants reserve	10	7,561,339	3,514,043
Contributed surplus		1,834,308	1,151,221
Accumulated other comprehensive income		(199,342)	(133,016)
Retained deficit		(31,024,982)	(28,335,419)
Total shareholders' equity (deficiency)		\$ 10,386,298	\$ (3,932,648)
Total liabilities and shareholders' equity (deficiency)		\$ 17,594,938	\$ 13,139,765

Going concern (Note 2)

Commitments (Note 13)

Subsequent events (Note 14)

See accompanying notes to the condensed interim consolidated financial statements.

CE Brands Inc.
Condensed Interim Consolidated Statement of Loss and Comprehensive Loss (unaudited)
For the three months ended June 30, 2021 and 2020

	Note	2021	2020
Revenue	7	\$ 1,115,143	\$ 2,553,316
Cost of products and services		997,413	1,798,722
Gross Profit		117,730	754,594
Expenses			
Marketing		146,660	560,353
Selling and distribution		154,010	249,453
Wages and contractors		814,399	879,737
Royalties and license fees		123,515	156,286
Technology and related		102,747	123,451
Professional fees		358,864	395,501
General and administrative		86,900	66,357
Depreciation		61,339	62,467
Amortization		242,981	325,768
Stock-based compensation		32,053	114,702
(Gain) Loss on foreign exchange		(23,359)	141,374
Operating loss		(1,982,379)	(2,320,855)
Finance costs	8	(1,432,224)	(586,345)
Fair value gain (loss) on financial instruments	6	2,141,447	(22,047)
Listing expense	3	(1,416,407)	-
Loss before income tax		(2,689,563)	(2,929,247)
Income tax expense (recovery)		-	-
Net loss		(2,689,563)	(2,929,247)
Other comprehensive loss for the period			
Loss on translation of foreign operations		(66,326)	(308,419)
Total comprehensive loss		\$ (2,755,889)	\$ (3,237,666)
Loss per share			
Basic and Diluted Loss Per Share	9	\$(0.14)	\$(0.20)

See accompanying notes to the condensed interim consolidated financial statements

CE Brands Inc.

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

As at:

	Note	Share capital	Equity component of convertible debt	Warrants Reserve	Contributed Surplus	Accumulated Earnings (Deficit)	Accumulated other comprehensive income	Total
Balance at March 31, 2020		\$14,098,504	\$757,540	\$2,171,470	\$760,907	\$(14,286,576)	\$740,675	\$4,242,520
Issuance of subscription units		124,662	-	36,563	-	-	-	161,225
Warrants converted to shares		93,750	-	-	-	-	-	93,750
Convertible debentures converted to common shares		930,000	-	-	-	-	-	930,000
Issuance of warrants		-	-	49,854	-	-	-	49,854
Stock-based compensation		-	-	-	114,702	-	-	114,702
Net loss		-	-	-	-	(2,929,247)	-	(2,929,247)
Other comprehensive loss		-	-	-	-	-	(308,419)	(308,419)
Balance at June 30, 2020		\$15,246,916	\$757,540	\$2,257,887	\$875,609	\$(17,215,823)	\$432,256	\$2,354,385
Balance at March 31, 2021		\$18,860,572	\$1,009,951	\$3,514,043	\$1,151,221	\$(28,335,419)	\$(133,016)	\$(3,932,648)
Warrants converted to shares	10	375,902	-	-	-	-	-	375,902
Shares issued in connection with public offering	3,9	10,654,849	-	-	-	-	-	10,654,849
Warrants issued in connection with public offering	3,10	-	-	4,047,296	-	-	-	4,047,296
Agent options issued in connection with public offering	3,11	-	-	-	507,572	-	-	507,572
Consideration transferred to shareholders of CE Brands	3	1,316,445	-	-	-	-	-	1,316,445
CEBI Options issued in reverse acquisition of CE Brands	3,11	-	-	-	92,359	-	-	92,359
CEBI IPO options issued in reverse acquisition of CE Brands	3,11	-	-	-	51,103	-	-	51,103
Repayment of convertible promissory note	6	-	(2,744)	-	-	-	-	(2,744)
Stock-based compensation		-	-	-	32,053	-	-	32,053
Net loss		-	-	-	-	(2,689,563)	-	(2,689,563)
Other comprehensive loss		-	-	-	-	-	(66,623)	(66,326)
Balance at June 30, 2021		\$31,207,768	\$1,007,207	\$7,561,339	\$1,834,308	\$(31,024,982)	\$(199,342)	\$10,386,298

See accompanying notes to the condensed interim consolidated financial statements

CE Brands Inc.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)

As at:

		For the three months ended June 30,	
	Note	2021	2020
Cash provided by (used in):			
Cash flows used in operating activities			
Net loss		\$ (2,689,563)	\$ (2,929,247)
Items not affecting cash:			
Amortization and Depreciation		304,320	388,235
Accretion		226,738	231,306
Amortization of financing costs		229,602	-
Stock-based compensation		32,053	114,702
Fair value (gain) loss on warrants obligation	6	(439,013)	22,047
Fair value gain on convertible debenture derivatives	6	(1,702,434)	-
Loss on financial instruments settlement	8	349,641	-
Unrealized (gain) loss on foreign exchange		(84,589)	-
Listing expense	3	1,416,407	-
Change in non-cash working capital	12	(2,870,589)	1,446,630
Net cash used in operating activities		(5,227,427)	(726,327)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		-	-
Net cash used in investing activities		-	-
Cash flows from financing activities			
Repayment of amounts due to related parties		-	(3,249)
Proceeds from long-term debt		-	460,730
Repayment of long-term debt		(362,210)	(12,480)
Repayment of senior secured debentures	6	(3,063,114)	-
Repayment of lease liability		-	(121,039)
Repayment of factoring	6	(1,315,606)	-
Repayment of other promissory notes		(37,382)	-
Net repayment of line of credit	6	(584,359)	-
Warrants converted to shares	10	375,902	-
Cash acquired on reverse acquisition of CE Brands Inc.	3	25,000	-
Shares issued in connection with public offering, net of share issue costs		15,209,718	253,875
Net cash provided by financing activities		10,247,949	577,837
Effect of change in foreign exchange rates on cash		(3,217)	220,519
Increase (decrease) in cash		5,017,305	72,029
Cash, beginning of period		397,337	521,060
Cash, end of period		\$ 5,414,642	\$ 593,089

See accompanying notes to the condensed consolidated financial statement

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

1. Company overview and nature of operations

CE Brands Inc. (“CEBI”) is a public company traded on the TSX-V exchange under the symbol CEBI. The Company’s headquarters are in Canada and the address of its registered office is 301-1321 Blanshard St, Victoria, BC, V8W 0B6. Through the use of sales data analytics, the Company selects growth consumer electronics products for sale through their direct-to-consumer e-commerce platforms via global retail channels in multiple countries.

On June 18, 2021, CE Brands Inc. acquired all of the outstanding shares of eBuyNow eCommerce Ltd. (“EBN”) by way of a three-cornered amalgamation with CE Brands retaining its name. Upon completion, the shareholders of CE Brands held approximately 2% of the issued and outstanding shares of the Company and as a result, EBN shareholders controlled 98% of the Company, resulting in a reverse take-over. The resulting financial statements are presented as a continuance of EBN (accounting acquirer), and comparative figures presented in the consolidated financial statements are those of EBN.

CE Brands Inc. was incorporated in the Province of Alberta on October 15, 2018 under the Business Corporations Act (Alberta) by Certificate of Incorporation issued pursuant to the provisions of the Canada Corporations Act. The predecessor entity that was operating the business of EBN was incorporated under the British Columbia Business Corporation Act on April 19, 2012.

Reference in these consolidated financial statements to “the Company” refers to EBN and its subsidiaries until June 17, 2021. As of June 18, 2021, “the Company” refers to the consolidated operations of CE Brands Inc. and the historical operations of EBN and its subsidiaries.

2. Basis of presentation, going concern and COVID-19

Basis of presentation

These financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with EBN’s audited financial statements for the year ended March 31, 2021.

These financial statements have been prepared on a historical cost basis, except derivative financial instruments which are measured at fair value. All accounting policies, methods of computation, estimates and assumptions used in the preparation of these financial statements are consistent with those described in notes 3 and 4 of the Company’s annual consolidated financial statements for the year ended March 31, 2021. These consolidated financial statements were authorized for issue by the board of directors of the Company on August 24, 2021.

Going Concern

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

value of its assets and to meet its liabilities as they become due.

At June 30, 2021, the Company had not achieved profitable operations since its inception and had accumulated a deficit of \$31,024,982 (March 31, 2021 – \$28,335,419), incurred a net loss of \$2,689,563 for the three months ended June 30, 2021 (three months ended June 30, 2020 - \$2,929,247), and cash flow used in operating activities for the three months ended June 30, 2021 was \$5,227,427 (three months ended June 30, 2020 - \$726,327). At June 30, 2021, the Company had a working capital surplus of \$1,940,847 (March 31, 2021 – deficiency of \$12,849,031). The Company also has commitments of \$1,321,123 due in the next 12 months (note 13).

Whether and when the Company can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due subsequent to June 30, 2021 is uncertain. Until this time, management will have to raise funds by way of debt or equity issuances or improve profitability.

There can be no assurance as to when the Company will achieve profitable operations, that debt or equity financing will continue to be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on the terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to achieve profitable operations or to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects. These conditions create a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different than those reflected in the consolidated financial statements. Such adjustments could be material.

COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. The Company's operations have been negatively impacted by the regional and global outbreak of COVID-19, and the continued length of time of this impact is unknown. Any quarantines, supply chain and labor shortages or other disruptions to the Company's operations, or those of its customers, adversely impacted the Company's revenues, ability to provide its products and services and operating results in fiscal 2021 and in year to date fiscal 2022 and may continue to adversely impact the Company throughout the remainder of fiscal 2022. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in their services. The extent to which the coronavirus impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

3. Reverse acquisition of CE Brands Inc. by eBuyNow eCommerce Ltd.

On January 28, 2021, CE Brands Inc. and EBN entered into an Amended and Restated Amalgamation Agreement (the "Amalgamation Agreement") in connection with the Amalgamation. Pursuant to the Amalgamation Agreement:

- The full corporate name of the resulting issuer will be "CE Brands Inc" (the "Resulting Issuer");
- The common shares of CE Brands will be consolidated on a 20.75-for-one basis into shares of the Resulting Issuer; and
- The class "A" common voting shares of EBN (the "EBN Shares") will be consolidated on a five-for-one basis;
- A wholly-owned subsidiary of CE Brands and EBN shall amalgamate under the British Columbia Business Corporations Act (BCBCA) and continue as one corporation;
- Pursuant to the amalgamation, the holders of EBN Shares will exchange those EBN Shares for Resulting Issuer shares on a one-for-one basis

On June 18, 2021, EBN completed a reverse takeover transaction with CE Brands Inc. which constituted a qualifying transaction (as defined in the policies of the TSX Venture Exchange) for CE Brands Inc. (the "Qualifying Transaction" or the "Transaction") involving EBN.

Immediately before the Qualifying Transaction, CE Brands Inc. consolidated its common shares ("Common Shares") on a 20.75-for-one basis. Existing stock options and warrants outstanding in CE Brands Inc. were also consolidated on a 20.75-for-one basis and entitled the holders to acquire shares in the capital of the resulting issuer for each stock option and warrant held immediately before the amalgamation.

In connection with the reverse takeover transaction, the following occurred:

- On June 18, 2021, the Company completed a public offering (the "Offering") of 4,156,626 subscription receipts (the "Subscription Receipts") for gross proceeds of \$17,250,000, each subscription receipt entitles the holder to one common share and one common share purchase warrant. The Company converted the Subscription Receipts into a total 4,156,626 common shares (the "Underlying Shares") and 4,156,626 common share purchase warrants (the "Underlying Warrants"), each of which entitles the holder to purchase one common share of the Company (a "Warrant Share"), for a purchase price of C\$7.50 per Warrant Share, for a period of 24 months following the date on which the Underlying Warrant was issued.
- Immediately before the Qualifying Transaction, holders of EBN common shares, warrants and stock options had their securities consolidated on a five-for-one basis. Pursuant to the Qualifying Transaction, the Company issued 18,141,970 Common Shares, options to purchase 1,395,000 Common Shares, 3,230,342 warrants to purchase Common Shares, and US\$1,388,888 (CAD \$1,964,629) aggregate principal amount of unsecured notes that are convertible into an aggregate of 624,721 Common Shares, and C\$1,174,785 aggregate principal amount of unsecured notes that are convertible into an aggregate of 313,277 Common Shares to former security holders of EBN.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

Immediately after the completion of the Qualifying Transaction and conversion of the Subscription Receipts, the issued and outstanding share capital of the Company consisted of 22,713,054 Common Shares, options to purchase 1,793,073 Common Shares, 7,386,969 warrants to purchase Common Shares, US\$1,388,888 (CAD \$1,964,629) aggregate principal amount of unsecured notes that are convertible into an aggregate of 624,721 Common Shares, and C\$1,174,785 aggregate principal amount of unsecured notes that are convertible into an aggregate of 313,277 Common Shares to former security holders of EBN.

Under IFRS, the share exchange is considered to be a share-based payment in substance. That is, the share exchange is measured at the fair value of the company acquired. Accordingly, the share exchange is accounted for as a reverse acquisition and no goodwill is recorded. Under reverse acquisitions, the post reverse acquisition comparative historical financial statements of the legal acquirer, CEBI, are those of the legal acquiree, EBN, which is considered the accounting acquirer. These financial statements reflect the statements of financial positions, the results of operations and the cash flows of EBN and its subsidiaries at their historical carrying amounts.

Through the Transaction, CEBI acquired legal control of EBN by way of a share exchange and subsequent amalgamation. However, the shareholders of EBN gained voting control of CEBI pursuant to the issuance of CEBI common shares to the shareholders of EBN, representing a 98% majority interest in CEBI. EBN is determined to be the accounting acquirer and, consequently, the transaction has been accounted for as a reverse acquisition of CEBI by EBN. As CEBI does not meet the definition of a business, the transaction is accounted for as a reverse acquisition of net assets, pursuant to IFRS 2 Share Based Payments.

The acquisition date fair value of the consideration transferred by the accounting acquirer, EBN for its interest in the accounting acquiree, CEBI of \$1,459,907 (or 414,458 common shares, 24,096 initial public offering options and 41,446 resulting issuer options) is determined based on the fair value of the equity interest EBN would have had to give to the owners of CEBI, before the reverse acquisition, to provide the same percentage equity interest in the combined entity that results from the reverse acquisition, and is recorded as an increase in common shares and contributed surplus respectively in the consolidated statement of financial position.

The net assets of CEBI acquired on June 18, 2021 are as follows:

Cash	\$25,000
Accounts receivable	25,000
Accounts payable	(6,500)
Net assets acquired	\$43,500

In accordance with IFRS 2, Share-Based Payments, any excess of the fair value of the shares issued by the Company over the value of the net monetary assets of CEBI, is recognized in the consolidated statements of comprehensive loss.

The consideration transferred in excess of net assets acquired in connection with the reverse acquisition was \$1,416,407.

4. Financial risk management

Overview

The Company's operations expose it to credit risk, liquidity risk and market risk which are all financial risks that arise as a result of its operating and financing activities. The Company employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. While the Directors have the overall responsibility for the establishment and oversight of the Company's risk management framework, management has the responsibility to administer and monitor these risks.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The maximum exposure to credit risk is as follows:

	June 30, 2021	March 31, 2021
Cash	\$5,414,642	\$397,337
Accounts receivable	192,314	243,490
Total	\$5,606,956	\$640,827

The Company manages the credit exposure related to cash by selecting financial institutions with high credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

The aging of the Company's receivables is as follows:

	June 30, 2021	March 31, 2021
Not past due	\$49,620	\$25,460
31 – 60 days	17,733	7,023
61 – 90 days	5,569	7,183
More than 90 days	127,040	206,183
Allowance for expected credit loss	(7,648)	(2,359)
Total	\$192,314	\$243,490

There is no concentration of credit risk with respect to accounts receivables, as the Company has a large number of customers, internationally dispersed. The Company considers accounts greater than 60 days old overdue. Accounts receivable includes \$132,609 and \$214,151 of accounts that are greater than 60 days old as at June 30, 2021 and March 31, 2021, respectively. The Company has recognized an expected credit loss of \$7,648 and \$2,359 on the accounts receivable at June 30, 2021 and March 31, 2021, respectively.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

Liquidity risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements: (a) the Company will not have sufficient funds to settle a transaction on the due date; (b) the Company will be forced to sell financial assets at a value which is less than the fair value; or, (c) the Company may be unable to settle or recover a financial asset at all. As discussed in the Basis of presentation – Going concern note above, certain debt obligations of the Company have been classified as current on the statement of financial position. The Company will require additional funding to reduce its exposure to liquidity risk (see note 2).

The Company continuously monitors its actual and forecast cash flows to review whether there are adequate reserves to meet the maturing profiles of its liabilities. The Company closely monitors its cash and manages liquidity risk by reducing spending, and raising funds as required via equity or debt financing.

The following table outlines the maturities of the Company's liabilities:

Contractual maturities of financial liabilities	Less than 1 year	1-3 years	Total
Accounts payable and accrued liabilities	\$ 2,776,238	\$ -	\$ 2,776,238
Warrant obligations	67,955	-	67,955
Due to related parties	-	313,889	313,889
Long-term debt ^{(1) (2)}	2,764,345	1,600,272	4,364,617
As at June 30, 2021	\$ 5,608,538	\$ 1,914,161	\$ 7,522,699

(1) Includes USD\$1,388,888 convertible debenture, USD\$392,723 pertaining to the repayment of amounts received for the sale of future receivables and USD\$250,000 in promissory notes. Repayment of all amounts is estimated based on the June 30, 2021 US to Canadian dollar exchange rate of 1.239.

(2) Presented as the contractual amount of long-term debt instruments gross of deferred financing fees.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign currency exchange rates, will affect the fair value of financial instruments. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on the long-term debt that bear interest at variable rates of interest. A 1% increase in the interest rate would have a \$41,136 increase on the net loss and accumulated deficit of the Company for the three months ended June 30, 2021 (three months ended June 30, 2020 - \$102,547).

CE Brands Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended June 30, 2021 and 2020**Foreign exchange risk

The Company's financial performance is closely linked to foreign exchange rates. While the Company may employ the use of various financial instruments in the future to manage these price exposures, the Company is not currently using any such instruments.

At June 30, 2021, the Company's exposure to currency risk consists of the following:

In Foreign Currency	USD	GBP	MXN	INR	HKD
Cash	67,058	21,961	77,429	929,121	1,621,879
Accounts Receivable	-	-	-	5,034,074	399,928
Accounts Payable and accrued liabilities	48,362	185,342	278,102	2,368,849	6,802,106
Debt	2,030,886	-	-	-	-

In CAD	USD	GBP	MXN	INR	HKD
Cash	83,165	37,725	4,841	15,501	259,014
Accounts Receivable	-	-	-	83,983	63,869
Accounts Payable and accrued liabilities	59,978	318,381	17,387	39,520	1,086,296
Debt	2,518,705	-	-	-	-

A 1% in the exchange rate would have a \$45,884 impact on the net loss and accumulated deficit of the Company for the three months ended June 30, 2021 (three months ended June 30, 2020 - \$66,826).

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

Capital management

The Company's capital management policy is to maintain a capital base that optimizes the Company's ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its shareholders. The Company intends to maintain a flexible capital structure to maximize its ability to pursue additional investment opportunities, which considers the Company's early stage of development and the requirement to sustain future development of the business. The Company will manage its capital structure and make changes to it in the light of changes to economic conditions and the risk characteristics of the nature of the business. The Company considers its capital structure to include shareholders' equity/deficit and working capital surplus/deficit. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage its current and projected capital structure.

5. Related parties

The amounts due to related parties include amounts due to shareholders, directors and a company controlled by directors and are non-interest bearing, unsecured and have no fixed terms of repayment.

	<u>June 30, 2021</u>	<u>March 31, 2021</u>
Due to current/former shareholders and officers	\$ 313,889	\$ 318,684

At June 30, 2021, accounts payable and accrued liabilities includes \$56,113 of amounts owed to directors and officers of the Company (March 31, 2021 – \$418,608).

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

6. Debt obligations, warrant obligations and convertible debenture derivatives

	June 30, 2021	March 31, 2021
<u>Convertible debenture notes</u>		
Opening balance	\$ 2,891,159	\$ 3,448,329
Convertible debt liability	-	1,071,092
Accretion expense	23,790	1,900,341
Converted to common shares	-	(3,528,603)
Settled, net of deferred financing fees	(221,801)	
Closing balance	\$ 2,693,148	\$ 2,891,159
<u>Senior secured debentures</u>		
Opening balance	\$ 2,515,557	\$ 1,844,377
Accretion expense	202,948	671,180
Settled	(2,718,505)	-
Closing balance	\$ -	\$ 2,515,557
<u>Other long-term debt and promissory notes</u>		
Opening balance	\$ 2,676,854	\$ 893,386
Promissory notes and other loans	-	2,336,828
Settled, net of deferred financing fees	(1,319,444)	(553,360)
Closing balance	\$ 1,357,410	\$ 2,676,854
<u>Line of credit</u>		
Opening balance	\$ 555,139	\$ -
Issued net of deferred financing fees	-	593,400
Borrowings	-	72,188
Net repayments	(584,359)	(112,127)
Amortization of deferred financing fees	29,220	1,678
Closing balance	\$ -	\$ 555,139
Total long-term debt	\$ 4,050,558	\$ 8,638,709
Current portion of long-term debt	\$ 2,638,294	\$ 7,249,959
Long-term debt	\$ 1,412,264	\$ 1,388,750
	June 30, 2021	March 31, 2021
<u>Warrants obligation</u>		
Opening balance	\$ 506,968	\$ 1,444,912
Fair value adjustment	(439,013)	79,257
Warrant obligation settlement	-	(1,017,201)
Closing balance	\$ 67,955	\$ 506,968

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

	June 30, 2021	March 31, 2020
<u>Convertible debenture derivatives</u>		
Opening balance	\$ 1,702,434	\$ -
Fair value on issuance	-	1,471,415
Fair value adjustment	(1,702,434)	231,019
Closing balance	\$ -	\$ 1,702,434

Convertible debenture notes

On June 22, 2020, the Company issued a US\$1,388,888 Convertible debenture note for proceeds of US\$1,250,000 (CAD \$1,697,250). The Company received cash proceeds of US\$339,046 (CAD \$460,357) with the remaining amount paid directly to a supplier of the Company for the purchases of inventory. The note bears an interest rate of 12%. The note includes a conversion feature whereby the note principal and any accrued interest are convertible at the lesser of \$0.75 per share of the Company prior to the close of the Transaction, or 75% of the liquidity event share value if the liquidity event price is less than \$1. This note matured on June 22, 2021. This note includes an amendment to a previously negotiated royalty arrangement which results in additional compensation for the lender. The conversion feature and amendment to the management fee resulted in two embedded derivatives, refer below for additional disclosure on the convertible debenture derivatives. As the Company did not achieve a liquidity event prior to September 30, 2020 the Company is in default on the note and the full amount is due on demand. The Company has determined the fair value of liabilities associated with the note by determining the fair value of the two embedded derivatives with the residual value being recorded to the host debt. Refer to convertible debenture derivatives below for disclosure of the key inputs in the valuation of the embedded derivatives. At June 30, 2021 the carrying value of the convertible debenture note was CAD \$1,721,388 (USD\$1,388,888). Accretion of \$nil was recorded during the three months ended June 30, 2021. The fair value measurement of the derivative liability is categorized within Level 1 of the fair value hierarchy because at June 30, 2021, the loan had matured and the lender elected to settle the amount in cash of US\$1,388,888 plus accrued interest resulting in the fair value of convertible debenture derivatives being \$nil. This convertible note has been settled subsequent to June 30, 2021, refer to note 14 for additional disclosure.

On August 31, 2020, the Company entered into a convertible secured subordinated note for \$320,254 in exchange for the settlement of an accounts payable balance of the same amount. The note bears an interest of 12% and has a 10-month term. The note is convertible to common shares of the Company at \$0.50 per share. In accordance with IAS 32, the Company has determined the fair value of liabilities associated with the note by discounting the expected future cash flows of the liability component at the Company's effective interest rate of 15.38%. The fair value of the liability component was \$317,511 and the remaining \$2,743 was recognized as the equity component of the convertible debt at inception. Accretion of \$276 was recorded during the three months ended June 30, 2021. At June 30, 2021, the Company had settled this debt obligation and recorded a \$5,033 loss on the settlement of the secured subordinated note.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

During the year ended March 31, 2021, the Company entered into a series of convertible founders loans for a total of \$574,660 comprised of cash proceeds of \$301,500 and the settlement of an existing loan for \$273,160. The loans bear an interest rate of 4.5% and have a conversion option at \$0.75 per share. The loans mature between August 31, 2022 and October 26, 2022. The fair value of the liability component was \$438,095 and the remaining \$136,565 was recognized as the equity component of the convertible debt at inception. Accretion of \$16,825 was recorded during the three months ended June 30, 2021.

During the year ended March 31, 2021, the Company entered into two additional series of convertible Founders Loans for total proceeds of \$300,125 and \$300,000, respectively. The loans bear an interest rate of 4.5% and have a conversion option at \$0.75 per share. The loans mature between October 26, 2022 and December 30, 2022. The fair value of the liability components was \$247,810 and \$246,346, the remaining \$52,315 and \$53,655 were recognized as the equity components of the convertible debt instruments at inception. Accretion of \$6,688 was recorded during the three months ended June 30, 2021.

The Company has outstanding liability warrants that were granted to certain convertible debenture holders to purchase additional common shares of the Company. During the three months ended June 30, 2021, a total of 164,666 liability warrants were exercised for total proceeds of \$308,749. 48,667 liability warrants expired in the period.

Senior secured debentures

On August 26, 2020, the company entered into a Shares for Debt Agreement where the company issued 502,005 common shares at a deemed price of \$0.375 per conversion shares in full payment for unpaid interest in relation to the Senior Secured Debenture issued November 8 to November 20, 2019. As part of this agreement there was a total of 2,460,000 warrants exercised under the debenture loan agreement for total proceeds of \$615,000. The terms of the remaining 3,832,770 warrants under the loan agreement were modified on August 26, 2020 to fix the exercise price at \$0.375 for an exercise period of 44 months from the issuance date. Previously, these warrants that were issued with the Senior Secured Debentures were classified as financial liabilities because the number of shares to be issued by the Company will vary depending on the Company's share price at the time of a liquidity event. As a result of the modification to the terms, the warrants no longer meet the criteria of a financial liability which has resulted in the Company derecognizing \$1,017,201 of financial liability and recognizing \$1,240,431 to warrants reserve resulting in a \$223,230 loss on the warrant obligation settlement. At June 30, 2021, the Company had settled this debt obligation and recorded a \$344,608 loss on the settlement of the senior secured debentures.

Other long-term debt and promissory notes

Other long-term debt and promissory notes consist of a variety of unsecured notes with terms of between 0 days and five years, and bear interest rates ranging from nil to 7.5%.

CE Brands Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended June 30, 2021 and 2020**

On August 5, 2020, the Company entered into a contract for the sale of US\$558,750 in future receivables for US\$500,000. This contract has a fee of 11.75% and is paid back monthly at a retrieval percentage of 6.5% for August 2020, 8.5% for September 2020, and October 2020, and 15% going forward. During the three months ended June 30, 2021, the Company made payments of \$489,647 towards this debt obligation. At June 30, 2021, the Company had settled this debt obligation.

On October 13, 2020, the Company entered into a contract for the sale of US\$560,000 in future receivables for US\$500,000. This contract has a fee of 12% and is paid back monthly at a retrieval percentage of 8.5% for the first two months and subsequently 15% going forward. During the three months ended June 30, 2021, the Company made payments of \$490,742 towards this debt obligation. At June 30, 2021, the Company had settled this debt obligation.

On March 9, 2021, the Company received loans from a group of founding shareholders for proceeds of \$425,487. The loans mature on March 9, 2023 and bear an interest rate of 4.5% per annum.

On March 10, 2021, the Company entered into a contract for the sale of US\$690,000 of future receivables for US\$500,000. This contract is to be repaid over 8 months at US\$43,124 for the first month and \$92,411 each month for the remaining 7 months. During the three months ended June 30, 2021, the Company made payments of \$335,217 towards this debt obligation.

Line of credit

On March 12, 2021, the Company entered into a two-year revolving line of credit loan in the maximum principal amount of up to US\$3,000,000 as determined based on certain inventory and accounts receivable balances of the Company. The revolving line of credit has a minimum interest rate of 10.5%. The Company withdrew \$630,050 (US\$500,000) against the line of credit on March 17, 2021, net of deferred financing fees of \$40,273 (US\$31,960). At June 30, 2021, the Company had settled the outstanding line of credit balance.

7. Revenue

	Three months ended June 30, 2021	Three months ended June 30, 2020
Product sales	\$1,103,976	\$2,525,873
Digital services revenue	11,167	26,523
Contract revenue	-	920
	\$1,115,143	\$2,553,316

CE Brands Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended June 30, 2021 and 2020**

The Company's revenues from the transfer of goods and services are recognized at a point in time and derived from the following geographical regions by location of the end consumer:

	Three months ended June 30, 2021	Three months ended June 30, 2020
Canada	\$220,680	\$288,055
United Kingdom	142,910	1,083,440
United States	449,869	689,608
China	-	16,354
Russia	-	-
Germany	89,322	57,536
Australia	-	48,981
Other countries	212,362	369,342
	\$1,115,143	\$2,553,316

8. Finance costs

	Three months ended June 30, 2021	Three months ended June 30, 2020
Interest expense	\$626,243	\$355,039
Accretion expense	226,738	231,306
Amortization of financing costs	229,602	-
Loss on financial instruments settlement	349,641	-
	\$1,432,224	\$586,345

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

9. Share capital and loss per share

Issued and outstanding

	Number of shares	Amount
Balance at March 31, 2020	15,478,955	\$ 14,098,504
Issuance of subscription units	61,487	178,312
Issuance of shares	147,248	276,089
Share issuance costs	-	(1,101)
Convertible debentures converted to common shares	1,709,133	3,595,018
Warrants converted to common shares	544,667	713,750
Balance at March 31, 2021	17,941,490	\$ 18,860,572
Warrants converted to common shares	200,480	375,902
Shares issued on reverse acquisition of CE Brands Inc.	414,458	1,316,445
Shares issued in connection with public offering	4,156,626	10,654,849
Balance at June 30, 2021	22,713,054	\$31,207,768

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value.

The holders of Common Shares are entitled to dividends, if, as and when declared by the board of directors, to one vote per share at meetings of the shareholders of the Company and, upon dissolution, to share equally in such assets of the Company as are distributable to the holders of Common Shares.

In relation to the reverse acquisition transaction, as described in note 3, on June 18, 2021, the common shares of EBN were exchanged on a five-for-one basis (the "Share Exchange"). The Share Exchange is reflected retrospectively in these consolidated financial statements.

During the year, 200,480 shares were issued for warrants exercised in the period.

On June 18, 2021, the Company completed a public offering (the "Offering") of 4,156,626 subscription receipts (the "Subscription Receipts") for gross proceeds of \$17,250,000, each subscription receipt entitles the holder to one common share and one common share purchase warrant. The Company converted the Subscription Receipts into a total 4,156,626 common shares (the "Underlying Shares") and 4,156,626 common share purchase warrants (the "Underlying Warrants"), each of which entitles the holder to purchase one common share of the Company (a "Warrant Share"), for a purchase of price of C\$7.50 per Warrant Share, for a period of 24 months following the date on which the Underlying Warrant was issued. The Company issued 4,156,626 shares at a price of \$4.15 per share. The Company paid agents a fee of \$1,380,000 and incurred \$660,282 in legal fees in connection with the public offering which have been recorded as share issuance costs and recognized as a deduction from equity. The Company issued 4,156,626 warrants for deemed consideration of \$4,047,296 and 332,530 agent options for deemed consideration of \$507,572. Both warrants and agent options have been recorded as a reduction in the share capital to be recognized on the public offering.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

Loss per share

The weighted average number of common shares used to calculate basic and diluted loss per share is 18,709,671 for the three months ended June 30, 2021 (three months ended June 30, 2020 – 14,771,254). The Company excluded convertible debt, warrants and stock options from the calculation of diluted loss per share as they would be anti-dilutive.

10. Warrants reserve

Issued and outstanding

	Number of warrants	Amount
Balance at March 31, 2020	2,317,340	\$ 2,171,470
Issuance of subscription units	61,487	52,288
Issuance of broker warrants	300	-
Warrant obligation settlement	766,554	1,240,431
Issuance of warrants	35,815	49,854
Balance at March 31, 2021	3,181,496	\$ 3,514,043
Warrants exercised	(35,815)	-
Warrants issued in connection with public offering	4,156,626	4,047,296
Balance at June 30, 2021	7,302,307	\$ 7,561,339

In relation to the reverse acquisition transaction, as described in note 3, on June 18, 2021, the warrants of EBN were exchanged on a five-for-one basis (the “Warrant Exchange”). The Warrant Exchange is reflected retrospectively in these consolidated financial statements.

During the three months ended June 30, 2021, 35,815 warrants were exercised in exchange for 35,815 common shares at \$1.875 per share for proceeds of \$67,153.

The Company issued 4,156,626 warrants as part of the public offering, as per note 3. Each warrant is exercisable at \$7.50 per common share for a period of 24 months from issuance.

The key assumptions underlying the valuation of warrants issued in the year were as follows:

Risk-free rate	0.97%
Weighted-average life	24 months
Annualized volatility	97.38%
Share price at the date of issuance	\$3.18
Dividend yield	0%
Exercise price	\$7.50

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended June 30, 2021 and 2020

11. Share based compensation

The Company has an option program that entitles officers, directors, employees and certain consultants to purchase shares in the Company. Options granted are exercisable at the market price of the shares at the date of grant, have a term of up to five years and vest over one to five years in accordance with the terms of the individual grants.

	Number of options
Balance at March 31, 2020	1,401,000
Granted during the year	142,000
Forfeited during the year	(148,000)
Balance at March 31, 2021	1,395,000
Granted during the period	12,000
Forfeited during the period	(40,000)
CEBI options issued on reverse acquisition of CE Brands Inc.	41,446
CEBI IPO options issued on reverse acquisition of CE Brands Inc.	24,096
Agents' options issued in connection with public offering	332,531
Balance at June 30, 2021	1,765,073

On June 18, 2021, the Company issued 41,446 CEBI options, each of which will entitle the holder to purchase one share of the Company, at a price of \$2.075 per share, for a period of 60 months. 24,096 CEBI IPO options were issued which entitle the holder to purchase one share of the Company, at a price of \$2.075 per share, for a period of 24 months. The CEBI options and CEBI IPO options were recorded as part of the consideration transferred to the accounting acquirer for its interest in the accounting acquiree. Refer to note 3 for additional disclosure.

On June 18, 2021, the Company issued 332,530 agents' options in connection with the public offering. Each agent's option will entitle the holder to purchase one share of the Company, at a price of \$4.15 per share, for a period of 12 months.

12. Net changes in non-cash working capital

Net changes in non-cash working capital consists of the following:

	Three months ended June 30, 2021	Three months ended June 30, 2020
Accounts receivable	73,708	(153,622)
Inventory	195,279	(2,376,537)
Prepaid expenses and deposits	(65,473)	2,284,807
Accounts payable and accrued liabilities	(3,074,103)	455,089
Non-cash proceeds from convertible debentures ⁽¹⁾	-	1,236,893
Change in non-cash working capital	(2,870,589)	1,446,630

⁽¹⁾ Refer to note 6 for disclosure on non-cash proceeds from convertible debentures.

CE Brands Inc.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended June 30, 2021 and 2020

13. Commitments

The company has minimum royalty guarantees on Kodak and Motorola licensing.

	Less than 1 year	1-3 years	3-5 years	Total
Royalty payments	\$1,321,123	\$3,648,484	\$3,359,936	\$8,329,543

14. Subsequent Events

Debt

On July 2, 2021, and July 6, 2021, the Company made cash payments of \$170,500 and \$79,500, respectively, to settle outstanding promissory notes.

On July 6, 2021, the Company settled the outstanding US\$1,388,888 convertible note and associated accrued interest. This was settled for a cash payment of \$1,964,629 (US\$1,569,443) to repay principal and accrued interest.

On July 30, 2021, the Company entered into a contract for the sale of US\$1,400,000 in future receivables for US\$1,250,000 to fund the growth of product orders and manufacturing by CE Brands. This contract has a fee of 12% and is paid back monthly at a retrieval percentage of 8.5% for August 2021 and September 2021, and 15% going forward.