

Condensed Interim Consolidated Financial Statements of

CE Brands Inc.

For the three and six month periods ended September 30,
2021 and 2020

(expressed in Canadian dollars)

CE Brands Inc.

Condensed Interim Consolidated Statements of Financial Position (unaudited)

As at:

		September 30, 2021	March 31, 2021
Assets			
	Note		
<i>Current assets</i>			
Cash		\$ 1,006,778	\$ 397,337
Accounts receivable	4	356,678	243,490
Inventory		1,854,718	1,882,353
Prepaid expenses and deposits		759,945	311,452
		3,978,119	2,834,632
Property, plant and equipment		225,430	361,983
Right of use assets		85,373	-
Intangible assets		260,909	719,947
Goodwill		9,293,899	9,223,203
Total assets		\$ 13,843,730	\$ 13,139,765
Liabilities			
<i>Current liabilities</i>			
Accounts payable and accrued liabilities		\$ 1,920,907	\$ 5,905,618
Due to related parties	5	322,969	318,684
Warrant obligations	6	30,013	506,968
Convertible debenture derivatives	6	-	1,702,434
Current portion of lease liabilities		41,744	-
Current portion of long-term debt	6	2,049,789	7,249,959
		4,365,422	15,683,663
Long-term portion of lease liabilities		44,135	
Long-term debt	6	1,010,552	1,388,750
Total liabilities		\$ 5,420,109	\$ 17,072,413
Shareholders' Equity (Deficiency)			
Share capital	9	31,212,467	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		1,876,993	1,151,221
Accumulated other comprehensive income		(140,554)	(133,016)
Deficit		(33,093,831)	(28,335,419)
Total shareholders' equity (deficiency)		\$ 8,423,621	\$ (3,932,648)
Total liabilities and shareholders' equity (deficiency)		\$ 13,843,730	\$ 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 and six months ended September 30, 2021 and 2020

	Note	For the three months ended September 30,		For the six months ended September 30,	
		2021	2020	2021	2020
Revenue	7	\$ 1,395,170	\$ 2,402,232	\$ 2,510,313	\$ 4,955,548
Cost of products and services		941,499	1,850,347	1,938,911	3,649,069
Gross Profit		453,671	551,885	571,402	1,306,479
Expenses					
Marketing		263,321	530,125	409,981	1,090,478
Selling and distribution		157,734	368,316	311,745	617,769
Wages and contractors		1,202,152	868,451	2,016,551	1,748,188
Royalties and license fees		297,889	246,601	421,404	402,887
Technology and related		122,807	174,455	225,554	297,906
Professional fees		122,201	163,061	481,065	558,562
General and administrative		194,314	83,463	281,215	149,820
Depreciation		78,750	62,468	140,088	124,935
Amortization		213,034	290,565	456,015	616,333
Stock-based compensation		42,685	124,602	74,738	239,304
Loss (gain) on foreign exchange		(117,557)	(43,238)	(144,418)	98,136
Operating loss		(2,123,659)	(2,316,984)	(4,102,536)	(4,637,839)
Finance costs	8	13,367	(2,138,052)	(1,418,858)	(2,724,397)
Fair value gain on financial instruments		37,942	313,888	2,179,389	313,888
Listing expense		-	-	(1,416,407)	-
Loss on warrant obligation settlement		-	(233,491)	-	(255,538)
Loss before income tax		(2,072,350)	(4,374,640)	(4,758,412)	(7,303,886)
Income tax expense (recovery)		-	-	-	-
Net loss		(2,072,350)	(4,374,640)	(4,758,412)	(7,303,886)
Other comprehensive loss for the period					
Gain (loss) on translation of foreign operations		62,288	(199,215)	(7,538)	(507,634)
Total comprehensive loss		\$(2,010,062)	\$(4,573,855)	\$(4,765,950)	\$(7,811,520)
Loss per share					
Basic and Diluted Loss Per Share		\$(0.09)	\$(0.29)	\$(0.23)	\$(0.49)

See accompanying notes to the condensed interim consolidated financial statements

CE Brands Inc.

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

	Note	Share capital	Equity component of convertible debt	Warrants Reserve	Contributed Surplus	Accumulated Deficit	Accumulated other comprehensive income (loss)	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		160,912	-	47,188	-	-	-	208,100
Issuance of shares		202,419	-	-	-	-	-	202,419
Share issuance cost		(1,101)	-	-	-	-	-	(1,101)
Warrants converted to shares		708,750	-	-	-	-	-	708,750
Convertible debentures converted to common shares		1,100,000	-	-	-	-	-	1,100,000
Issuance of warrants		-	-	32,308	-	-	-	32,308
Issuance of convertible debentures		-	148,752	-	-	-	-	148,752
Warrant obligation settlement		-	-	1,240,431	-	-	-	1,240,431
Stock-based compensation		-	-	-	239,304	-	-	239,304
Net loss		-	-	-	-	(7,303,886)	-	(7,303,886)
Other comprehensive loss		-	-	-	-	-	(507,634)	(507,634)
Balance at September 30, 2020		\$16,269,484	\$906,282	\$3,491,397	\$1,000,211	\$(21,590,461)	\$233,041	\$309,963
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	380,601	-	-	-	-	-	380,601
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		-	-	-	74,738	-	-	74,738
Net loss		-	-	-	-	(4,758,412)	-	(4,758,412)
Other comprehensive loss		-	-	-	-	-	(7,538)	(7,538)
Balance at September 30, 2021		\$31,212,467	\$1,007,207	\$7,561,339	\$1,876,993	\$(33,093,831)	\$(140,554)	\$8,423,621

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 six months ended September 30,	
	Note	2021	2020
Cash provided by (used in):			
Cash flows used in operating activities			
Net loss		\$ (4,758,412)	\$ (7,303,886)
Items not affecting cash:			
Amortization and Depreciation		596,103	741,269
Accretion		250,510	2,012,759
Amortization of financing costs		354,438	-
Stock-based compensation		74,738	239,304
Fair value gain on warrants obligation	6	(476,955)	(313,888)
Fair value gain on convertible debenture derivatives	6	(1,702,434)	-
Loss on financial instruments settlement	8	227,144	255,538
Unrealized loss on foreign exchange		129,213	-
Listing expense	3	1,416,407	-
Change in non-cash working capital	12	(4,539,722)	2,392,282
Net cash used in operating activities		(8,428,970)	(1,976,622)
Cash flows from financing activities			
Repayment of amounts due to related parties	5	-	(24,889)
Proceeds from shareholder loans		-	12,000
Proceeds from long-term debt		-	761,857
Proceeds from factoring	6	1,558,724	669,500
Repayment of long-term debt and convertible notes	6	(2,100,820)	(50,865)
Repayment of senior secured debentures	6	(3,063,114)	-
Repayment of lease liability		(3,206)	(228,485)
Repayment of factoring	6	(1,763,743)	(25,339)
Repayment of other promissory notes		(622,879)	-
Net repayment of line of credit	6	(584,359)	-
Warrants converted to shares	10	380,601	-
Issuance of share capital		-	916,850
Proceeds for shares not yet issued		-	22,500
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	-
Net cash provided by financing activities		9,035,922	2,053,129
Effect of change in foreign exchange rates on cash		2,489	191,408
Increase in cash		609,441	267,915
Cash, beginning of period		397,337	521,060
Cash, end of period		\$ 1,006,778	\$ 788,974

See accompanying notes to the condensed interim consolidated financial statements

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended September 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 located in Calgary, Alberta and the address of its registered office is 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta, T2P 5C5. 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).

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, with the exception of the following change in accounting policy.

Government grants

The Company recognizes government grants as they are received or if there is reasonable assurance that the Company is in compliance with all associated conditions. When the grant relates to an expense item, it is recognized as a reduction to the related expense in the period in which the costs are incurred. If the grant relates to an asset, it is recognized as a reduction to the carrying value of the asset and amortized into income over the expected useful life of the asset through lower depletion and depreciation.

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

These consolidated financial statements were authorized for issue by the board of directors of the Company on November 23, 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 value of its assets and to meet its liabilities as they become due.

At September 30, 2021, the Company had not achieved profitable operations since its inception and had accumulated a deficit of \$33,093,831 (March 31, 2021 – \$28,335,419), incurred a net loss of \$2,072,350 and \$4,758,412 for the three months and six months ended September 30, 2021 (\$4,374,640 three months ended and \$7,303,886 six months ended September 30, 2020), and cash flow used in operating activities for the six months ended September 30, 2021 was \$8,428,970 (six months ended September 30, 2020 - \$1,976,623). At September 30, 2021, the Company had a working capital deficiency of \$387,303 (March 31, 2021 – deficiency of \$12,849,031). The Company also has commitments of \$3,166,987 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 September 30, 2021 is uncertain. Until this time, management will have to raise funds by way of debt or equity issuances or improve profitability. Refer to note 14 for additional information on debt and equity financing subsequent to September 30, 2021.

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

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended September 30, 2021 and 2020

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.

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 was changed to "CE Brands Inc" (the "Resulting Issuer");
- The common shares of CE Brands were 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") were consolidated on a five-for-one basis;
- A wholly-owned subsidiary of CE Brands and EBN amalgamated under the British Columbia Business Corporations Act (BCBCA) and was continued as one corporation; and
- Pursuant to the amalgamation, the holders of EBN Shares exchanged 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 holders were entitled 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 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.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended September 30, 2021 and 2020

- 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, 1,395,000 options to purchase 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 were 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.

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, 1,793,073 options to purchase 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 were 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.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended September 30, 2021 and 2020

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:

	September 30, 2021	March 31, 2021
Cash	\$ 1,006,778	\$ 397,337
Accounts receivable	356,678	243,490
Total	\$ 1,363,456	\$ 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.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended September 30, 2021 and 2020

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

	September 30, 2021	March 31, 2021
Not past due	\$ 304,399	\$ 25,460
31 – 60 days	13,877	7,023
61 – 90 days	37,507	7,183
More than 90 days	13,507	206,183
Allowance for expected credit loss	(12,612)	(2,359)
Total	\$ 356,678	\$ 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 \$51,014 and \$213,366 of accounts that are greater than 60 days old as at September 30, 2021 and March 31, 2021, respectively. The Company has recognized an expected credit loss of \$12,612 and \$2,359 on the accounts receivable at September 30, 2021 and March 31, 2021, respectively.

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	\$ 1,920,907	\$ -	\$ 1,920,907
Lease liabilities	41,744	44,135	85,879
Warrant obligations	30,013	-	30,013
Due to related parties	322,969	-	322,969
Long-term debt ^{(1) (2)}	1,833,436	1,600,272	3,433,708
As at September 30, 2021	\$ 4,149,069	\$ 1,644,407	\$ 5,793,476

(1) Includes USD\$1,450,503 pertaining to the repayment of amounts received for the sale of future receivables. Repayment of all amounts is estimated based on the September 30, 2021, US to Canadian dollar exchange rate of 1.264.

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

CE Brands Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)****For the three and six months ended September 30, 2021 and 2020**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 \$30,904 increase on the net loss and accumulated deficit of the Company for the six months ended September 30, 2021 (six months ended September 30, 2020 - \$84,040).

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

In Foreign Currency	USD	GBP	EUR	MXN	INR	HKD
Cash	47,116	41,588	64,461	87,430	6,199,385	794,257
Accounts Receivable	-	-	-	-	5,714,589	1,722,647
Accounts Payable and accrued liabilities	86,990	28,184	19,220	139,159	-	6,907,115
Lease liability	-	-	-	-	-	524,612
Debt	1,468,253	-	-	-	-	-

In CAD	USD	GBP	EUR	MXN	INR	HKD
Cash	60,030	71,239	95,408	5,434	106,319	130,020
Accounts Receivable	-	-	-	-	98,005	281,997
Accounts Payable and accrued liabilities	110,834	48,280	28,447	8,649	-	1,130,695
Lease liability	-	-	-	-	-	85,879
Debt	1,870,701	-	-	-	-	-

A 1% in the exchange rate would have a \$41,319 impact on the net loss and accumulated deficit of the Company for the six months ended September 30, 2021 (six months ended September 30, 2020 - \$42,851).

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>September 30, 2021</u>	<u>March 31, 2021</u>
Due to current/former shareholders and officers	\$ 322,969	\$ 318,684

At September 30, 2021, accounts payable and accrued liabilities includes \$165,750 of amounts owed to directors and officers of the Company (March 31, 2021 – \$418,608).

On November 12, 2021, the Company completed a debt financing which was determined to constitute a related party transaction as it involved the Company issuing securities to and borrowing money from entities over which Vesta Wealth Partners Ltd. ("Vesta") exercises certain discretionary control. The Board determined Vesta to be a related party of the Company as a result of a director of the Company, having certain discretionary investment decision-making control in respect of Vesta. Refer to note 14 for additional details.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended September 30, 2021 and 2020

6. Debt obligations, warrant obligations and convertible debenture derivatives

	September 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	47,562	1,900,341
Converted to common shares	-	(3,528,603)
Settled, net of deferred financing fees	(1,943,189)	
Closing balance	\$ 995,532	\$ 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	1,592,640	2,336,828
Settled, net of deferred financing fees	(2,204,685)	(553,360)
Closing balance	\$ 2,064,809	\$ 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	\$ 3,060,341	\$ 8,638,709
Current portion of long-term debt	\$ 2,049,789	\$ 7,249,959
Long-term debt	\$ 1,010,552	\$ 1,388,750
<u>Warrants obligation</u>		
Opening balance	\$ 506,968	\$ 1,444,912
Fair value adjustment	(476,955)	79,257
Warrant obligation settlement	-	(1,017,201)
Closing balance	\$ 30,013	\$ 506,968

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

	September 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 was in default on the note and the full amount was due on demand. The Company had 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. On July 2, 2021, the convertible note was settled in cash with \$1,388,888 USD in principle and \$180,555 USD in interest, for a total payment of \$1,569,443 USD (\$1,964,629.30 CAD).

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 September 30, 2021. At September 30, 2021, the Company had settled this debt obligation and recorded a \$5,033 loss on the settlement of the secured subordinated note.

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 \$33,835 was recorded during the six months ended September 30, 2021.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended September 30, 2021 and 2020

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 \$13,450 was recorded during the six months ended September 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 six months ended September 30, 2021, a total of 164,666 liability warrants were exercised for total proceeds of \$308,749. 80,667 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 September 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%.

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 September 30, 2021, the Company made payments of \$489,647 towards this debt obligation. At September 30, 2021, the Company had settled this debt obligation.

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

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 September 30, 2021, the Company made payments of \$490,742 towards this debt obligation. At September 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 six months ended September 30, 2021, the Company made payments of \$719,371 towards this debt obligation.

On July 28, 2021, the Company entered into a contract for the sale of US\$1,400,000 of future receivables for US\$1,250,000 (CAD \$1,558,724). This contract is paid back monthly at a retrieval percentage of 8.5% for August 2021, 8.5% for September 2021, and 15% going forward. During the six month period ended September 30, 2021, the Company made payments of \$65,910 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 September 30, 2021, the Company had settled the outstanding line of credit balance.

7. Revenue

	Three months ended September 30, 2021	Three months ended September 30, 2020	Six months ended September 30, 2021	Six months ended September 30, 2020
Product sales	\$ 1,393,158	\$ 2,386,203	\$ 2,497,134	\$ 4,912,076
Digital services revenue	1,558	16,029	12,725	42,553
Contract revenue	454	-	454	919
	\$ 1,395,170	\$ 2,402,232	\$ 2,510,313	\$ 4,955,548

CE Brands Inc.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)****For the three and six months ended September 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 September 30, 2021	Three months ended September 30, 2020	Six months ended September 30, 2021	Six months ended September 30, 2020
Canada	\$ 166,358	\$ 264,933	\$ 387,037	\$ 552,987
United Kingdom	114,787	276,788	257,598	1,359,304
United States	500,922	1,179,384	950,791	1,868,993
China	-	-	-	16,690
Russia	73,680	127,693	73,680	127,693
Germany	49,436	90,934	138,758	149,393
Australia	28	227,567	28	276,548
Singapore	74,898	-	74,898	-
Other Countries	415,061	234,933	627,523	603,940
	\$ 1,395,170	\$ 2,402,232	\$ 2,510,313	\$ 4,955,548

8. Finance costs

	Three months ended September 30, 2021	Three months ended September 30, 2020	Six months ended September 30, 2021	Six months ended September 30, 2020
Interest (income) expense	\$ (39,478)	\$ 356,600	\$ 586,765	\$ 711,638
Accretion expense	23,772	1,781,452	250,510	2,012,759
Amortization of financing costs	124,836	-	354,439	-
Loss (gain) on financial instrument settlement	(122,497)	-	227,144	-
	\$ (13,367)	\$ 2,138,052	\$ 1,418,858	\$ 2,724,397

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended September 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	202,980	380,601
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 September 30, 2021	22,715,554	\$ 31,212,467

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, 202,980 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 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 recognized on the public offering.

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

Loss per share

The weighted average number of common shares used to calculate basic and diluted loss per share is 22,711,288 for the three and 20,722,670 six months ended September 30, 2021 (14,958,226 and 14,990,757 for the three and six months ended September 30, 2020). 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	(38,315)	-
Warrants expired	(32,000)	-
Warrants issued in connection with public offering	4,156,626	4,047,296
Balance at September 30, 2021	7,267,807	\$ 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 six month period ended September 30, 2021, 38,315 warrants were exercised in exchange for 35,815 common shares at \$1.875 per share for proceeds of \$71,852.

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

Subsequent to September 30, 2021, 1,483,500 Warrants have expired.

CE Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended September 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	(60,000)
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 September 30, 2021	1,745,073

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:

	Six months ended September 30, 2021	Six months ended September 30, 2020
Accounts receivable	\$ (82,508)	\$ 436,353
Inventory	38,257	(1,953,019)
Prepaid expenses and deposits	(494,691)	2,157,216
Accounts payable and accrued liabilities	(4,000,781)	514,839
Non-cash proceeds from convertible debentures ⁽¹⁾	-	1,236,893
Change in non-cash working capital	\$ (4,539,722)	\$ 2,392,282

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

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	\$ 1,367,138	\$ 3,974,399	\$ 2,851,414	\$ 8,192,952
Purchase orders placed	\$ 1,799,849	-	-	\$ 1,799,849
	\$ 3,166,987	\$ 3,974,339	\$ 2,851,414	\$ 9,992,800

14. Subsequent Events

On November 12, 2021, the Company closed a private placement of senior secured convertible notes (the “Convertible Notes”) for aggregate committed capital of \$4,000,000, with a potential upside in the amount of \$2,000,000 (the “Debt Financing”). The Convertible Notes will bear interest at a rate of 15.0% per annum on outstanding principal amounts, payable on the first and second anniversary of the issue date, unless earlier redeemed or converted. Interest may be payable, at the option of the holders, either in cash or through the issuance of common shares of the Company based on the then market price of the Company’s common shares. The Convertible Notes will be senior secured obligations of the Company and mature on the second anniversary of the issue date (the “Maturity Date”). Prior to maturity, the Convertible Notes are convertible into common shares of the Company, at the option of the holders, at a conversion price per share of \$1.50. The Convertible Notes are not redeemable by the Company prior to the first anniversary of the issue date.

The Company also completed a non-brokered private placement equity financing (the “Equity Financing”, and together with the Debt Financing, the “Private Placement”) with existing institutional investors for aggregate gross proceeds of \$1,400,000 at a price of \$0.56 per common share, representing the closing price on the TSX Venture Exchange on October 29, 2021.

In addition, 2,000,000 common share purchase warrants (“Warrants”) have been issued to the holders of the Convertible Notes with each Warrant having an exercise price of \$1.00 per share and being exercisable on or before the second anniversary of the issue date. 112,000 finder’s Warrants have been issued to certain eligible finders under the Equity Financing with each Warrant having an exercise price of \$1.00 per share and being exercisable on or before the second anniversary of the issue date.

A cash fee of \$112,000 was paid to certain eligible finders in connection with the Equity Financing.