

HYTN INNOVATIONS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED
JUNE 30, 2022 and 2021

(Unaudited)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of HYTN Innovations Inc. (the "Company") have been prepared by and are the responsibility of management. These condensed consolidated interim financial statements for the three and nine months ended June 30, 2022, have not been reviewed or audited by the Company's independent auditors. All amounts are stated in Canadian Dollars unless otherwise stated.

HYTN Innovations Inc.

Condensed Consolidated Interim Statements of Financial Position

As at June 30, 2022

In Canadian Dollars, unless noted (unaudited)

As at	Notes	June 30, 2022	September 30, 2021
		\$	\$
ASSETS			
Current Assets			
Cash		1,496,265	264,062
Accounts receivable		195,792	33,291
Prepaid expenses		77,474	87,097
Inventory		362,622	122,840
Loan receivable	6	-	38,785
Total current assets		2,132,153	546,075
Non-current Assets			
Property, plant and equipment	4	2,160,966	2,205,363
Deposits	7	87,290	10,450
Total non-current assets		2,248,256	2,215,813
TOTAL ASSETS		4,380,409	2,761,888
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		402,257	213,057
Loan payable	6	-	1,730,000
Lease liability - current	5	108,946	108,946
Total current liabilities		511,203	2,052,003
Non-current Liabilities			
Lease liability - non-current	5	705,207	718,764
Decommissioning provision	7	149,335	-
Total non-current liabilities		854,542	718,764
TOTAL LIABILITIES		1,365,745	2,770,767
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	8	13,637,709	1,446,471
Warrants		2,776	-
Stock-based payment reserve		749,091	-
Deficit		(11,374,912)	(1,455,350)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		3,014,664	(8,879)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		4,380,409	2,761,888

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Going concern (Note 2)

Approved on behalf of the Board of Directors:

"Elliot Mckerr", Director

"Dennis Staudt", Director

HYTN Innovations Inc.**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**

For the Three and Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

For the Three and Nine Months Ended June 30,	Three Months Ended		Nine Months Ended	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenues (Note 9)	133,220	-	601,262	-
Cost of sales	110,765	-	455,145	-
GROSS PROFIT	22,455	-	146,117	-
EXPENSES				
Advertising and marketing	68,394	16,491	154,497	25,907
Consulting and salaries	333,039	69,715	758,342	187,218
Depreciation	54,404	271	162,723	813
Office and miscellaneous	137,577	19,409	298,705	31,660
Professional fees	164,120	4,038	327,122	9,463
Stock-based compensation (Note 8)	321,145	-	749,091	-
Transfer agent and filing fees	32,218	-	43,215	-
Travel	5,677	11,725	22,251	54,333
OPERATING EXPENSES	1,116,574	121,649	2,515,946	309,394
TOTAL OPERATING LOSS	(1,094,119)	(121,649)	(2,369,829)	(309,394)
Foreign exchange gain / (loss)	-	-	29	-
Gain on debt settlement (Note 7)	-	-	60,918	-
Interest / accretion expense (Note 5)	(21,978)	-	(71,666)	-
Listing expense (Note 7)	-	-	(7,539,014)	-
	(21,978)	-	(7,549,733)	-
NET LOSS AND COMPREHENSIVE LOSS	(1,116,097)	(121,649)	(9,919,562)	(309,394)
Loss per share, basic and diluted	(0.02)	(0.01)	(0.26)	(0.03)
Weighted average number of common shares outstanding – Basic and diluted	62,259,838	15,532,000	38,296,844	11,689,575

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

HYTN Innovations Inc.**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)**

As at June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

	Common Shares Number	Share Capital \$	Subscriptions Received \$	Warrants \$	Stock-based payment reserve \$	Deficit \$	Total Equity \$
Balance, September 30, 2020	105,001	800,576	530,000	-	-	(584,719)	745,857
Shares issued – private placements	15,426,999	645,895	(530,000)	-	-	-	115,895
Loss for the period	-	-	-	-	-	(309,394)	(309,394)
Balance, June 30, 2021	15,532,000	1,446,471	-	-	-	(894,113)	552,358
Balance, September 30, 2021	15,532,000	1,446,471	-	-	-	(1,455,350)	(8,879)
Corporate Transactions (Note 7)	41,635,056	10,408,764	-	2,776	-	-	10,411,540
Shares issued – settlement of indebtedness (Note 7)	5,092,782	1,782,474	-	-	-	-	1,782,474
Stock-based compensation (Note 8)	-	-	-	-	749,091	-	749,091
Loss for the period	-	-	-	-	-	(9,919,562)	(9,919,562)
Balance, June 30, 2022	62,259,838	13,637,709	-	2,776	749,091	(11,374,912)	3,014,664

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

HYTN Innovations Inc.

Condensed Consolidated Interim Statements of Cash Flows

For the Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

For the Nine Months Ended June 30,	Notes	2022	2021
		\$	\$
OPERATING ACTIVITIES			
Net loss for the period		(9,919,562)	(309,394)
Items not affecting cash			
Depreciation	4	162,723	813
Stock-based compensation	8	749,091	-
Listing expense	7	7,539,014	-
Gain on debt settlement	7	(60,918)	-
Interest/accretion expense	5	71,666	-
Net changes in non-cash working capital items:			
Accounts receivable		(151,078)	(8,632)
Prepaid expenses		14,623	35,508
Inventory		(239,782)	18,969
Loan receivable from acquiree prior to acquisition		265,842	-
Accounts payable and accrued liabilities		(43,190)	(9,231)
Cash used in operating activities		(1,611,571)	(271,967)
INVESTING ACTIVITIES			
Cash acquired through reverse takeover - NumberCo	7	2,207,106	-
Cash acquired through reverse takeover - HYTN Innovation	7	217	-
Purchase of property, plant and equipment	4	(118,326)	(504,525)
Cash provided by (used) in investing activities		2,088,997	(504,525)
FINANCING ACTIVITIES			
Share issuance		-	645,895
Repayment of lease liability	5	(85,223)	-
Net change in pre-acquisition loan payable to acquiree	6 & 7	840,000	-
Cash provided by financing activities		754,777	645,895
Net change in cash		1,232,203	(130,597)
Cash, beginning of period		264,062	176,465
Cash, end of period		1,496,265	45,868

No cash interest paid during the nine months ended June 30, 2022 and 2021.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

HYTN Innovations Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

1. NATURE OF OPERATIONS

HYTN Innovations Inc. (formerly Mount Dakota Energy Corp.) (the “Company” or “HYTN Innovations”) was incorporated under the laws of British Columbia on October 22, 1990. The Company’s office is 12 East 4th Ave., Vancouver, British Columbia .

On February 17, 2022, the Company completed the Securities Exchange Agreement (the “SEA”) with HYTN Beverage Corp. (“HYTN”), pursuant to which the Company purchased all of the outstanding securities of HYTN in exchange for common shares and common share purchase warrants of the Company issued on a one-for-one basis to the former security holders of HYTN (the “Reverse Take-Over” or “RTO”). The transaction was accounted for as a reverse acquisition, with HYTN identified as the acquirer. Consequently, the comparative figures reported are those of HYTN.

In addition, the Company entered into an amalgamation agreement (the “Amalgamation Agreement”) with 1306562 B.C. Ltd. (“Numberco”) and MMO Merger Holdings Inc., a wholly-owned subsidiary of the Company (“Subco”), pursuant to which Numberco and Subco amalgamated on February 17, 2022 under the Business Corporations Act (British Columbia) with the resulting entity (“Amalco”) continuing as a wholly-owned subsidiary of the Company (the “Amalgamation”, and together with the Reverse Take-Over, the “Corporate Transactions”).

The Corporate Transactions constituted a change of business for the Company, with the Company carrying on with the development and launch of HYTN’s sparkling tetrahydrocannabinol and cannabidiol beverage business. See Note 7 for further information regarding the Corporate Transactions.

On February 22, 2022, the Company changed its name from Mount Dakota Energy Corp. to HYTN Innovations Inc. and listed its Common Shares on the Canadian Securities Exchange (the “CSE”) under the symbol “HYTN”.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 26, 2022.

2. GOING CONCERN

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. On June 30, 2022, the Company had not yet achieved profitable operations and had a deficit of \$11,374,912 (September 30, 2021 - \$1,455,350) and a working capital surplus (deficiency) of \$1,620,950 (September 30, 2021 - \$(1,505,928)).

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The Company expects to incur further losses in the development of its business. If for any reason, the Company is unable to continue as a going concern, this could result in adjustments to the amounts and classifications of assets and liabilities in the Company’s consolidated financial statements and such adjustments could be material.

The COVID-19 pandemic continues to impact the global economic recovery. The current situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgements made by management in the preparation of these financial statements are subject to a higher degree of measurement uncertainty during this volatile period.

HYTN Innovations Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

3. BASIS OF PRESENTATION

In these financial statements, unless otherwise indicated, all amounts are expressed in Canadian dollars, which is the Company's functional and presentation currency.

a) Accounting Policies and Estimates

These unaudited condensed interim consolidated financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). 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 the Company's audited consolidated financial statements for the year ended September 30, 2021.

The financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Notes 3 and 4 of the Company's audited consolidated financial statements for the year ended September 30, 2021. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous year, except as noted in Note 12 "New Accounting Policies and Estimates".

b) Consolidation

These condensed interim consolidated financial statements are presented in Canadian dollars ("CAD") and incorporate the financial results of the Company and its controlled subsidiaries:

Entity	Jurisdiction	Functional currency	Ownership %
HYTN Innovations Inc.	Canada	CAD	Parent
HYTN Beverage Corp	Canada	CAD	100%
HYTN Cannabis Inc.	Canada	CAD	100%
1306562 B.C. Ltd.	Canada	CAD	100%

Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

HYTN Innovations Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

4. PROPERTY, PLANT AND EQUIPMENT

At June 30, 2022, the Company's property, plant and equipment are as follows:

	Leasehold Improvements	Equipment	Right-of-Use Assets	Total
	\$	\$	\$	\$
Cost				
Balance, September 30, 2020	4,429	441,849	-	446,278
Additions	919,749	110,323	797,969	1,828,041
Balance, September 30, 2021	924,178	552,172	797,969	2,274,319
Additions	53,018	65,308	-	118,326
Balance, June 30, 2022	977,196	617,480	797,969	2,392,645
Accumulated Amortization				
Balance, September 30, 2020	-	1,638	-	1,638
Additions	15,403	20,871	31,044	67,318
Balance, September 30, 2021	15,403	22,509	31,044	68,956
Additions	48,861	73,963	39,899	162,723
Balance, June 30, 2022	64,264	96,472	70,943	231,679
Net, September 30, 2020	4,429	440,211	-	444,640
Net, September 30, 2021	908,775	529,663	766,925	2,205,363
Net, June 30, 2022	912,932	521,008	727,026	2,160,966

5. LEASE LIABILITY

	\$
Balance, September 30, 2021	827,710
Interest/accretion expense	71,666
Repayments	(85,223)
Balance, June 30, 2022	814,153
Less: Current portion	(108,946)
Lease liability, long-term	705,207

The Company's annual lease payments are as follows:

Years ending	\$
September 30, 2022	43,588
September 30, 2023	122,500
September 30, 2024	138,843
September 30, 2025	143,859
September 30, 2026 and thereafter	1,531,627
Total lease payments	1,980,417
Remaining present value adjustment to be accreted over the lease term	(1,166,264)
Lease liability balance, June 30, 2022	814,153

HYTN Innovations Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

6. LOAN PAYABLE

During the year ended September 30, 2021, the Company entered into a promissory note agreement with 1306562 B.C. Ltd to receive funds for the purpose of pursuing its share exchange agreement with HYTN Innovation Inc. Concurrently, HYTN Innovations Inc. signed a binding Letter of Intent with 1306562 B.C. Ltd. for HYTN Innovations Inc. to acquire all of the outstanding securities of 1306562 B.C. Ltd. in exchange for securities of HYTN Innovations Inc. The promissory note for the sum of up to \$2,570,000 is unsecured and accrues interest at 10% per annum payable along with the principal on the earlier of June 24, 2022 or the demand date.

As a result of the Corporate Transactions, the total loan payable on February 17, 2022 of \$2,570,000 and interest payable of \$49,316, were eliminated upon consolidation. See Note 7(b) for additional information.

7. CORPORATE TRANSACTIONS

a) HYTN Innovations Inc. and HYTN Beverage Corp. RTO

In connection with the SEA, the following transactions were completed:

- i. The Company issued one common share in exchange for each issued and outstanding common share of HYTN, totalling 15,532,000 common shares;
- ii. The Company issued 2,532,000 common share purchase warrants to former security holders of HYTN, with each such warrant exercisable to acquire one common share at a price of \$0.50 per share until February 1, 2023;
- iii. The Company issued an aggregate of 10,000,000 performance warrants ("Performance Warrants") to certain members of the management team, with each Performance Warrant exercisable upon vesting to acquire one Common Share at a price of \$0.05 per share for a period of five years from the date of issuance. One-half of the Performance Warrants will vest and become exercisable upon the Company achieving revenue of \$5,000,000 over a 12-month period following closing of the RTO, with the remaining 50% vesting and becoming exercisable upon the Company achieving revenue of \$8,000,000 over a 12-month period following closing of the RTO.
- iv. The Company settled acquired debt in the amount of \$1,843,392 through the issuance of 5,092,782 common shares at a deemed price of \$0.35 per share (the "Debt Settlement"). The Debt Settlement resulted in a gain on debt settlement of \$60,918.

As a result of the SEA, former holders of HYTN shares hold 15,532,000 common shares representing 85.3 percent, and holders of HYTN Innovation shares hold 2,666,136 shares representing 14.7 percent, of the Company. The shareholders of HYTN, therefore, control the Company upon completion of the SEA. The transaction was accounted for as a reverse acquisition, with HYTN identified as the acquirer. Consequently, the comparative figures reported are those of HTYN.

The fair value of the consideration was determined based on 2,666,136 common shares issued at the price of \$0.25 per share, which corresponds to the price of the financing closed concurrently with the SEA, totaling \$666,534.

HYTN Innovations Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

The preliminary purchase price allocation of HYTN Innovations has been allocated as follows:

	\$
Net assets acquired	
Cash	217
Accounts receivable	11,423
Prepaid expenses	5,000
Deposits ⁽¹⁾	76,840
Accounts payable and accrued liabilities	(213,409)
Loan payable ⁽²⁾	(1,843,392)
Decommissioning provision ⁽³⁾	(149,335)
Deemed transaction costs ⁽⁴⁾	2,779,190
Net assets acquired	666,534

Consideration

Fair value of 2,666,136 shares issued	666,534
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Notes:

- (1) The Company is required at certain times to remit deposits to the Alberta Energy Regulator to be used for the reclamation of well sites. Upon successful reclamation and receipt of reclamation certificates in accordance with Alberta's Environmental Protection and Enhancement Act, the Company may apply for release of its deposit funds. As at June 30, 2022, the Company had outstanding net deposits of \$77,474 (2021 - \$76,456).
- (2) The Company settled the loan payable through the issuance of 5,092,782 common shares at a deemed price of \$0.35 per share (the "Debt Settlement"). The Debt Settlement resulted in a gain on debt settlement of \$60,918.
- (3) The estimated net present value of the obligation was calculated using a risk-free interest rate of 0.14% based on the Bank of Canada benchmark bond yields corresponding to the estimated time of reclamation and an inflation rate of 1.00%.
- (4) The deemed transaction costs, primarily relating to the acquired public exchange listing, were expensed.

The purchase price allocation herein is preliminary. The final purchase price allocation will be determined after completion of a thorough analysis to determine the fair value of all assets acquired and liabilities assumed but in no event later than one year following completion of the acquisition. Accordingly, the final acquisition accounting adjustments could differ materially from the adjustments presented herein.

b) Amalgamation

In connection with the amalgamation agreement, the following transactions were completed:

- i. The Company issued one common share in exchange for each issued and outstanding common share of NumberCo totalling 38,968,920 common shares;
- ii. The Company issued 24,984 common share purchase warrants to former security holders of NumberCo, with each such warrant exercisable to acquire one common share at a price of \$0.50 per share until September 10, 2022;

The amalgamation is considered a business combination under IFRS and has been accounted for using the acquisition method.

HYTN Innovations Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

The preliminary estimated fair value at February 17, 2022 of the assets and liabilities acquired is outlined in the table below:

	\$
Net assets acquired	
Cash	2,207,106
Loan receivable - HYTN Beverage Corp. ⁽¹⁾	2,570,000
Promissory note receivable - HYTN Innovations Inc. ⁽¹⁾	209,510
Interest receivable ⁽¹⁾	17,547
Accounts payable and accrued liabilities	(18,981)
Deemed transaction costs ⁽²⁾	4,759,824
Net assets acquired	9,745,006
Consideration	
Fair value of 38,968,920 common shares issued	9,742,230
Fair value of 24,984 warrants granted	2,776
Consideration	9,745,006

Notes:

(1) Amounts receivable are with companies involved in the Corporate Transactions. The amounts are eliminated upon consolidation.

(2) The deemed transaction costs, primarily relating to the acquired public exchange listing, were expensed.

The purchase price allocation herein is preliminary. The final purchase price allocation will be determined after completion of a thorough analysis to determine the fair value of all assets acquired and liabilities assumed but in no event later than one year following completion of the acquisition. Accordingly, the final acquisition accounting adjustments could differ materially from the adjustments presented herein.

8. SHARE CAPITAL

a) Authorized and Issued Share Capital

The authorized share capital consists of an unlimited number of Class A common voting shares.

Common shares issued and outstanding as at June 30, 2022 are 62,259,838 (September 30, 2021 - 15,532,000).

Shares issued during the nine months ended June 30, 2022 were as follows:

	Description	Number of Shares	Amount (\$)
Balance, September 30, 2021		15,532,000	1,446,471
February 17, 2022	Acquisition of HYTN	2,666,136	666,534
February 17, 2022	Amalgamation with NumberCo	38,968,920	9,742,230
February 17, 2022	Settlement of indebtedness	5,092,782	1,782,474
Balance, June 30, 2022		62,259,838	13,637,709

HYTN Innovations Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

b) Options

A summary of the Company's options is as follows:

	Number Of Options	Weighted Average Exercise Price
Balance, September 30, 2021	-	-
Granted	1,990,000	\$0.35
Balance, June 30, 2022	1,990,000	\$0.35

At June 30, 2022, the following options were outstanding:

Number of Options	Exercise Price	Expiry Date
1,725,000	\$0.35	February 17, 2026
265,000	\$0.35	February 21, 2026
1,990,000		

At June 30, 2022, the weighted-average remaining life of the outstanding options was 2.80 years.

During the nine months ended June 30, 2022, the Company recognized \$291,447 in stock-based payment expense in connection with the granting and vesting of options.

The fair value of options granted during the nine-month period ended June 30, 2022 was determined using the following weighted average Black-Scholes Option Pricing Model assumptions:

	June 30, 2022
Share price	\$0.35 - \$0.39
Exercise price	\$0.35
Expected life	2 to 3 years
Volatility	100%
Risk-free interest rate	1.20% - 1.68%

c) Restricted Share Units

The Company issued 1,900,000 restricted share units ("RSUs"), vesting over one year, with the first tranche vesting on the grant date.

During the nine months ended June 30, 2022, the Company granted the following RSUs, subject to certain performance and time-based vesting conditions, to directors, officers, and consultants:

	RSUs
Balance, September 30, 2021	-
Granted	1,900,000
Balance, June 30, 2022	1,900,000

During the nine months ended June 30, 2022, the Company recognized \$457,644 in stock-based payment expense related to the granting and vesting of RSUs.

HYTN Innovations Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

d) Share Purchase Warrants

A summary of the Company's warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2021	2,532,000	\$ 0.50
Cancelled – Corporate Transaction	(2,532,000)	\$ 0.50
Granted – Corporate Transaction	2,556,985	\$ 0.50
Balance, June 30, 2022	2,556,985	\$ 0.50

At June 30, 2022, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
2,532,000	\$0.50	February 1, 2023
24,985	\$0.50	September 10, 2022
2,556,985		

At June 30, 2022, the weighted-average remaining life of the outstanding warrants was 0.59 years.

e) Performance Warrants

As discussed in Note 7(a), the Company issued an aggregate of 10,000,000 Performance Warrants to certain members of the management team, with each Performance Warrant exercisable upon vesting to acquire one Common Share at a price of \$0.05 per share for a period of five years from the date of issuance.

The Performance Warrants have the following vesting terms:

- 1) 5,000,000 Performance Warrants shall vest and become exercisable upon the Company achieving aggregate gross revenue of \$5,000,000 over any period of 12 consecutive months; and
- 2) 5,000,000 Performance Warrants shall vest and become exercisable upon the Company achieving aggregate gross revenue of \$8,000,000 over any period of 12 consecutive months.

No fair value has been recognized as a result of a probability of nil associated with progress towards the related performance-based milestones.

9. REVENUES

The Company generates revenue from the transfer of goods at a point-in-time from the revenue streams below. As a result, the Company has no deferred revenue on the condensed consolidated interim statements of financial position.

For the Three and Nine Months Ended June 30,	Three Months Ended		Nine Months Ended	
	2022	2021	2022	2021
	\$	\$	\$	\$
Cannabis – beverage sales	133,220	-	472,324	-
Cannabis – flower sales	-	-	128,938	-
	133,220	-	601,262	-

HYTN Innovations Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended June 30, 2022 and 2021

In Canadian Dollars, unless noted (unaudited)

10. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of public or private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits.

The Company does not pay dividends and has no long-term debt or bank credit facility. The Company is not subject to any externally imposed capital requirements.

11. RISK MANAGEMENT

a) Financial Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

i. Capital Risk

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain operations. The capital structure of the Company consists of cash and share capital.

ii. Credit Risk

Credit risk is the risk that a counterparty will be unable to pay any amounts owed to the Company. The Company's cash is held in large Canadian financial institutions and its accounts receivable relates to third-party sales and GST receivable, which have no history of default and does not expose the Company to credit risk.

iii. Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations. At June 30, 2022, the Company's working capital surplus (deficiency) is \$1,601,085 (September 30, 2021 - \$(1,505,928)) and it does not have any long-term liabilities other than lease liabilities. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all.

Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

iv. Market Risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is not exposed to these risks.

HYTN Innovations Inc.

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In Canadian Dollars, unless noted (unaudited)

v. **Currency Risk**

The operating results and financial position of the Company are reported in Canadian dollars. As the Company is exploring opportunities in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the Canadian dollar. The results of the Company's operations are subject to currency risk.

The Company has not entered into any agreements or purchased any foreign currency hedging instruments to hedge possible currency risks at this time. Management believes the foreign exchange risk derived from currency conversions is not significant, and therefore, does not hedge its foreign exchange risk.

b) **Fair Values**

The carrying values of cash, receivables, prepaid expenses, inventory and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are not observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

12. NEW ACCOUNTING POLICIES AND ESTIMATES

a) **Stock-Based Compensation**

The Company grants options, warrants, restricted share units and other equity-based compensation, to purchase common shares to directors, officers, employees, consultants and certain service providers under its stock option plan. Share-based payments are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as a share-based payment expense during a reporting period is adjusted to reflect the number of awards expected to vest. The offset to this recorded cost is contributed surplus.

The fair value of stock options is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on short term government bonds).

A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

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b) IFRS 15 – Revenue from Contracts with Customers

The Company generates revenue primarily from the sale of cannabis related products. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

- i. Identify the contract with a customer;
- ii. Identify the performance obligation(s) in the contract;
- iii. Determine the transaction price;
- iv. Allocate the transaction price to the performance obligation(s) in the contract;
- v. Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment for recreational sales is typically due prior to shipment. Payment for wholesale transactions is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

c) Decommissioning Provision

The HYTN Innovation's previous oil and gas operating activities gave rise to dismantling, decommissioning and site remediation activities. The Company recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a risk-free discount rate. The associated decommissioning cost is capitalized and depleted over the same period as the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized prospectively as a change in the decommissioning liability and related capitalized decommissioning cost.

In estimating the future decommissioning provision, the Company makes assumptions about activities that occur many years into the future including the cost and timing of such activities. The ultimate financial impact is not clearly known as asset removal and remediation techniques and costs are constantly changing, as are legal, regulatory, environmental, political, safety and other such considerations. In arriving at amounts recorded, numerous assumptions and estimates are made on ultimate settlement amounts, inflation factors, discount rates, timing and expected changes in legal, regulatory, environmental, political and safety environments.

d) Business Combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The consideration transferred is measured as the fair value of the assets given and equity instruments issued at the acquisition date. The excess of the consideration transferred over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the consideration transferred is less than the fair value of the identifiable assets, liabilities and contingent liabilities acquired, a bargain purchase gain is recognized immediately in income (loss). Transaction costs associated with a business combination are expensed as incurred.