# PURE EXTRACTS MANUFACTURING CORP. (FORMERLY PURE EXTRACT TECHNOLOGIES INC.)

## CONDENSED INTERIM FINANCIAL STATEMENTS

## FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

## (EXPRESSED IN CANADIAN DOLLARS)

## (UNAUDITED – PREPARED BY MANAGEMENT)

## Contents

**PURE EXTRACTS MANUFACTURING CORP. (FORMERLY PURE EXTRACT TECHNOLOGIES INC.)**
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian dollars)

| As at | September 30, 2020 $ | June 30, 2020 $ |
|---|---|---|
| **ASSETS (Notes 7 and 8)** | | |
| Current assets | | |
| Cash | 15,823 | 134,395 |
| Prepaid expenses | 116,481 | 94,336 |
| GST receivable | 196,387 | 177,295 |
| Inventories | 7,817 | 7,817 |
| Short-term loan receivable (Note 6) | 380,087 | 390,087 |
| Total current assets | 716,595 | 803,930 |
| Long-term deposits (Note 11) | 195,821 | 737,921 |
| Property and equipment (Note 4) | 2,899,852 | 2,365,843 |
| Right-of-use asset (Note 11) | 1,576,672 | 520,983 |
| Total assets | 5,388,940 | 4,428,677 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 5) | 522,508 | 618,061 |
| Due to related parties (Note 10) | 18,361 | 18,361 |
| Loan payable (Note 6) | 1,701,016 | 1,711,016 |
| Promissory note (Note 7) | 3,279,498 | 1,944,199 |
| Convertible debentures – short term (Note 8) | 256,663 | 252,033 |
| Lease liability – short term (Note 11) | 249,310 | 102,601 |
| Total current liabilities | 6,027,356 | 4,646,271 |
| Convertible debentures – long term (Note 8) | 893,575 | 884,342 |
| Lease liability – long term (Note 11) | 784,330 | 426,117 |
| Total liabilities | 7,705,261 | 5,956,730 |
| Shareholders' deficiency | | |
| Share capital (Note 9) | 1,480,000 | 1,480,000 |
| Share-based compensation reserve (Note 9) | 177,713 | 99,560 |
| Deficit | (3,974,034) | (3,107,613) |
| Total shareholders' deficiency | (2,316,321) | (1,528,053) |
| Total liabilities and shareholders' deficiency | 5,388,940 | 4,428,677 |

Subsequent events (Note 14)

**Approved and authorized for issuance by the Board of Directors on November 30, 2020:**

*/s/ Dwight Duncan*
Name, Director

*/s/ Sean Bromley*
Name, Director

(The accompanying notes are an integral part of these condensed interim financial statements)

**PURE EXTRACTS MANUFACTURING CORP. (FORMERLY PURE EXTRACT TECHNOLOGIES INC.)**
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited - Expressed in Canadian dollars)

| | Three months ended September 30, 2020 $ | Three months ended September 30, 2019 $ |
|---|---|---|
| Operating expenses | | |
| Amortization (Note 11) | **64,280** | - |
| Advertising and promotion | **159,530** | 475 |
| Accounting and legal | **126,563** | 105,887 |
| Consulting (Note10) | **17,725** | 41,782 |
| Insurance | **4,987** | 12,700 |
| Interest and bank charges (Notes 7, 8 and 11) | **67,677** | 14,994 |
| Licenses | **23,000** | - |
| Office expense | **25,334** | 3,519 |
| Office and equipment rental | **21,224** | 30,353 |
| Repairs and custom work | **160** | 35,640 |
| Salaries and benefits (Note 10) | **278,234** | 22,742 |
| Share-based compensation (Notes 9 and 10) | **78,153** | - |
| Supplies | **1,559** | 13,482 |
| Utilities | **2,430** | 724 |
| Travel and entertainment | **66** | 19,336 |
| Total operating expenses | **(870,922)** | (301,634) |
| Other income | | |
| Interest income | **-** | 37 |
| Foreign exchange gain | **4,501** | - |
| Net loss and comprehensive loss for the period | **(866,421)** | (301,597) |
| Basic and diluted loss per share | **(0.11)** | (0.10) |
| Weighted average number of shares outstanding | **8,000,000** | 3,000,000 |

(The accompanying notes are an integral part of these condensed interim financial statements)

**PURE EXTRACTS MANUFACTURING CORP. (FORMERLY PURE EXTRACT TECHNOLOGIES INC.)**
CONDENDSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(Unaudited - Expressed in Canadian dollars)

| | Share capital | | Share-based Compensation Reserve | | |
|---|---|---|---|---|---|
| | Number of shares | Amount $ | $ | Deficit $ | Total $ |
| Balance, June 30, 2019 | 3,000,000 | 480,000 | – | (169,214) | 310,786 |
| Net loss and comprehensive loss for the period | – | – | – | (301,597) | (301,597) |
| Balance, September 30, 2019 | 3,000,000 | 480,000 | – | (470,811) | 9,189 |
| Balance, June 30, 2020 | 8,000,000 | 1,480,000 | 99,560 | (3,107,613) | (1,528,053) |
| Share-based compensation (Note 9) | – | – | 78,153 | – | 78,153 |
| Net loss and comprehensive loss for the period | – | – | – | (866,421) | (866,421) |
| **Balance, September 30, 2020** | **8,000,000** | **1,480,000** | **177,713** | **(3,974,034)** | **(2,316,321)** |

(The accompanying notes are an integral part of these condensed interim financial statements)

**PURE EXTRACTS MANUFACTURING CORP. (FORMERLY PURE EXTRACT TECHNOLOGIES INC.)**
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian dollars)

| | Three months ended September 30, | |
|---|---|---|
| | **2020** | 2019 |
| | **$** | $ |
| **OPERATING ACTIVITIES** | | |
| Net loss for the period | **(866,421)** | (301,597) |
| Non-cash items | | |
| Amortization | **64,280** | – |
| Accrued interest | **44,162** | 14,904 |
| Share-based compensation | **78,153** | – |
| Changes in non-cash operating working capital: | | |
| Prepaid expenses | **(22,145)** | 4,931 |
| GST receivable | **(19,092)** | (55,141) |
| Accounts payable and accrued liabilities | **(20,020)** | 273,561 |
| Net cash used in operating activities | **(741,083)** | (63,342) |
| **INVESTING ACTIVITY** | | |
| Purchase of property and equipment | **(609,542)** | (734,160) |
| Net cash used by investing activity | **(609,542)** | (734,160) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from promissory note | **1,305,000** | – |
| Proceeds from convertible debentures | **-** | 800,000 |
| Lease liability payments | **(72,947)** | – |
| Net cash provided by financing activities | **1,232,053** | 800,000 |
| Change in cash | **(118,572)** | 2,498 |
| Cash, beginning of period | **134,395** | 73,564 |
| Cash, end of period | **15,823** | 76,062 |

**Supplemental cashflow information**

| | **$** | $ |
|---|---|---|
| Property and equipment additions in accounts payable and accrued liabilities | **95,733** | - |
| Interest paid | **22,333** | - |
| Assigned loan receivable in loan payable | **380,087** | - |

(The accompanying notes are an integral part of these condensed interim financial statements)

## 1. NATURE AND GOING CONCERN

Pure Extract Manufacturing Corp. (formerly Pure Extract Technologies Inc.) (the “Company” or “Pure”) was incorporated on May 2, 2018 under the laws of the province of British Columbia as PurePulls Technology Corp. and subsequently changed its name to Pure Extract Technologies Inc. on November 28, 2018. Subsequent to September 30, 2020, the Company changed its name to Pure Extract Manufacturing Corp. after the amalgamation transaction on October 28, 2020 (Note 14). The Company’s principal address is located at 7341 Industrial Way, Pemberton, British Columbia, V0N 2K0.

Pure intends to undertake the business of the extraction and processing of cannabis and hemp as a third-party service to licensed producer for toll processing or white-label processing and for its own private label of products incorporating its full spectrum THC- and CBD-based extracted oils. Pure has a fully built carbon dioxide extraction facility in Pemberton, British Columbia. The Company has received the standard processing license from Health Canada.

These financial statements have been prepared on the going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the three months ended September 30, 2020, the Company earned no revenues and incurred a net loss of $866,421 (2019 - $301,597). As at September 30, 2020, the Company has working capital deficit of $5,310,761 (June 30, 2020 - $3,842,341) and an accumulated deficit of $3,974,034 (June 30, 2020 - $3,107,613). Management is actively pursuing sources of equity and debt financing to meet the Company’s liabilities and commitments as they come due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

At the time these financial statements were prepared, the COVID-19 pandemic has caused significant disruptions to the global economy and increased volatility in the global financial markets. The extent to which COVID-19 may adversely impact the Company’s business and financing opportunities will depend on future developments such as the geographic spread of the disease, the duration of the outbreak, travel restrictions and social distancing, business closures or business disruptions, and the effectiveness of actions taken in Canada, and other countries to contain and treat the disease. Although it is not possible to reliably estimate the length or severity of these developments and their financial impact to the date of approval of these financial statements, there may be further significantly adverse impact on the Company's financial position and results of operations for future periods if the pandemic is not successfully contained or the effects of which are not mitigated.

On February 18, 2020, the Company signed a letter of intent with Pure Extracts Technologies Corporation (formerly Big Sky Petroleum Corporation) (“Big Sky” or “Pubco”) pursuant to which Big Sky will acquire all of the outstanding shares of the Company. The transaction was closed subsequent to September 30, 2020 (Note 14).

## 2. BASIS OF PREPARATION

### Statement of compliance

These condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC") and with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34").

These condensed interim financial statements have been prepared on a historical cost basis, except for certain financial instruments at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### Basis of preparation

These condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's June 30, 2020 annual financial statements.

The preparation of interim financial statements in conformity with IAS 34 do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended June 30, 2020.

These condensed interim financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation.

These condensed interim financial statements were authorized for issue by the Board of Directors on November 30, 2020.

### Significant accounting judgments and estimates

The preparation of these condensed interim financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from judgments made, relate to, but are not limited to, the following:

*Going concern*

The assumption that the Company will be able to continue as a going concern is subject to critical judgments by management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

## 2. BASIS OF PREPARATION (CONTINUED)

### Significant accounting judgments and estimates (CONTINUED)

*Property and equipment – useful lives*

The Company estimates the useful lives and selects methods used to allocate amortization amounts of property and equipment on a systematic basis. Technical obsolescence of the tangible assets could significantly impact estimated residual useful lives and in turn, carrying values being over or understated.

*Impairment of receivables*

The Company provides for doubtful debts by analyzing the historical default experience and current information available about a borrower's credit worthiness on an account by account basis. Uncertainty relates to the actual collectability of borrower balances that can vary from the Company's estimation. No loss allowance has been provided by the Company as at September 30 30, 2020 (June 30, 2020 - $Nil).

*Convertible debentures*

The convertible debentures were assessed as being a financial liability with an embedded derivative liability. The Company analyzed the conversion feature of the agreements for derivative accounting consideration under IFRS 9 *Financial Instruments* and determined that the embedded conversion features should be classified as a derivative because the exercise price of these convertible debts are subject to a variable conversion rate. The Company has determined that the value of conversion feature changes in response to the share price of the Company and is therefore not afforded as equity classification.

Conversion features that fail equity classification and are accounted for as derivative liabilities are accounted for separately from the host instruments. However, the Company is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, therefore it designates the entire hybrid contract as at fair value through profit or loss.

*Share-based compensation*

The fair value of stock options granted, and compensatory warrants are measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. The Company estimates volatility based on historical share price of comparable companies, excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the entities' expected share price volatility. The expected life of the options is based on historical experience and general option holder behaviour. Dividends were not taken into consideration as the Company does not expect to pay dividends. Management also makes an estimate of the number of options that will forfeit, and the rate is adjusted to reflect the actual number of options that vest.

## 2. BASIS OF PREPARATION (CONTINUED)

### Significant accounting judgments and estimates (CONTINUED)

*Right-of-use asset and lease liability*

The right of use asset and lease liability is measured by discounting the future lease payments at the incremental borrowing rate. The incremental borrowing rate is an estimated rate the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

For right of use assets and lease liability, the Company applies judgment in determining whether the contract contains an identified asset, whether they have the right to control the asset, and the lease term. The lease term is based on considering facts and circumstances, both qualitative and quantitative, that can create an economic incentive to exercise renewal options. Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

*Impairment of Long-Lived Assets*

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that the carrying amount is not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When an individual asset does not generate independent cash flows, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Many factors are used in assessing recoverable amounts and are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments.

## 3. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

### Fair values

The Company's financial instruments classified as level 1 in the fair value hierarchy are cash, loan receivable, accounts payable and accrued liabilities, due to related parties, loan payable and promissory note as their carrying values approximate the fair values due to the relatively short-term maturity of these instruments. The convertible debentures and lease liability are classified as level 3.

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, price risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt and equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The Company has cash at September 30, 2020 in the amount of $15,823 (June 30, 2020 - $134,395), in order to meet short-term liabilities of $6,027,356 (June 30, 2020 - $4,646,271). There is no assurance that financing will be available or, if available, that such financing will be on terms acceptable to the Company. The Company monitors its risk of shortage of funds by monitoring the maturity dates of its existing liabilities. The loan payable, promissory note and convertible debentures are due in the next 1 to 2 years.

### Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets which primarily is cash and its loan receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. The Company's cash is held with a major Canadian-based financial institution. The amount owed in loan receivable is from a third party which the Company believes is collectible and is secured against the third party's personal assets (Note 6). The carrying amount of financial assets represents the maximum credit exposure.

### Foreign exchange rate risk

Currency risk is the risk of loss due to the fluctuation of foreign exchange rates and the effects of these fluctuations on foreign currency denominated monetary assets and liabilities. The Company's has minimal transactions in foreign currencies and is not exposed to significant foreign currency risk.

### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to interest rate risk arises primarily from their cash in bank, promissory note and convertible debentures. The Company's loan receivable bears interest at 8% per annum (Note 6) and its promissory note (Note 7) and convertible debentures (Note 8) currently provides for interest at both 5% per annum. The Company's loan payable is non-interest bearing (Note 6).

(Unaudited - Expressed in Canadian dollars)

## 3. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (CONTINUED)

The Company does not expect any significant effect on the Company's profit or loss arising from the effects of reasonably possible changes to interest rates on interest bearing financial instruments at the of the financial year.

### Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of cash, and equity comprised of issued share capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or sell assets to fund operations. Management reviews its capital management approach on a regular basis. The Company is not subject to externally imposed capital requirements, and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended June 30, 2020.

## 4. PROPERTY AND EQUIPMENT

| | Leasehold Improvements | Manufacturing Equipment | Security Equipment | Extraction Equipment | Furniture and fixtures | Total |
|---|---|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ | $ | $ |
| As at June 30, 2019 | 285,525 | 480,000 | 35,786 | – | – | 801,311 |
| Additions | 1,302,865 | 137,774 | 118,893 | 5,000 | – | 1,564,532 |
| As at June 30, 2020 | 1,588,390 | 617,774 | 154,679 | 5,000 | – | 2,365,843 |
| Additions | 89,821 | 1,655 | 6,724 | 433,678 | 2,131 | 534,009 |
| **As at September 30, 2020** | **1,678,211** | **619,429** | **161,403** | **438,678** | **2,131** | **2,899,852** |
| | | | | | | |
| **Accumulated Amortization** | $ | $ | $ | $ | | $ |
| As at June 30, 2019 | – | – | – | – | – | – |
| Amortization | – | – | – | – | – | – |
| As at June 30, 2020 | – | – | – | – | – | – |
| Amortization | – | – | – | – | – | – |
| **As at September 30, 2020** | – | – | – | – | – | – |
| | | | | | | |
| **Net Book Value** | **$** | **$** | **$** | **$** | **$** | **$** |
| As at June 30, 2020 | 1,588,390 | 617,774 | 154,679 | 5,000 | – | 2,365,843 |
| **As at September 30, 2020** | **1,678,211** | **619,429** | **161,403** | **438,678** | **2,131** | **2,899,852** |

No amortization was recorded since the assets were not in use as of September 30, 2020.

(Unaudited - Expressed in Canadian dollars)

## 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | September 30, 2020 $ | June 30, 2020 $ |
|---|---|---|
| Accounts payable | 394,925 | 533,939 |
| Accrued professional fees | 127,583 | 84,122 |
| | 522,508 | 618,061 |

## 6. LOAN RECEIVABLE AND LOAN PAYABLE

On December 4, 2019, the Company and 1205457 B.C. Ltd. ("Fundco"), a third-party lender which became a shareholder upon conversion of debenture (Note 8), entered into letter of agreement to assist the Company in providing financing and facilitating the acquisition of all the shares of the Company by Big Sky by way of three-cornered amalgamation (the "Acquisition") (Note 14). Under the terms of this amended agreement, the Company is responsible for all the costs and expenses incurred by Fundco in connection with its capital raising activities, the loans and facilitating the Acquisition, provided that any individual expense in excess of $50,000 and aggregate expenses in excess of $1 million will require prior approval from the Company. These costs and expenses shall relate to professional services, marketing services, financial advisory, roadshows, travel, advertising and administrative costs. In addition, the Company will also be responsible for fees payable to eligible finders engaged in connection with Fundco; the advances made by Fundco to a third party ("Third Party") for cannabis dispensary developments, which total $390,087 (including accrued interest of $22,814); and fees associated to hire a CEO of the Company.

Consequently, the Company recognized loans payable totaling to $1,711,016 which mainly relates to the transaction costs of pre-approved $1,000,000, and a loan receivable of $367,273 of advances made to the Third Party with the option to purchase cannabis dispensaries. The loan payable bears no interest and is payable on demand. The loan advances to the Third Party bear an interest of 8% per annum, secured by all of the personal property of the Third Party.

During the three months ended September 30, 2020, the loan owing from the Third-Party has been called.

As at September 30, 2020, the loan payable and loan receivable balances were $1,701,016 and $380,087, respectively (June 30, 2020 - $1,711,016 and $390,087).

On January 13, 2020, the Company entered into an Asset Purchase Option Agreement ("Option Agreement") with the Third Party, whereby in exchange for $1,000,000 of common shares of the Company, the Third Party will grant the Company 100% interest in three cannabis dispensaries. In consideration for the Option Agreement, the Company will pay the Third Party $47,000 which will be offset against funds previously advanced to the Third Party. The common shares will be issued according to the following milestones:

(a) 1/3 on the grant date of a fully issued cannabis dispensary license for the applicable dispensary;
(b) 1/3 on the date the applicable dispensary location for the license begins its first day of commercial operations; and
(c) 1/3 upon the licensed dispensary generating at least $100,000 of revenue in any calendar month.

The Company will also pay the Third Party a royalty fee of $30,000 per month for each of the dispensaries that is in operation until the dispensary is acquired by the Company.

(Unaudited - Expressed in Canadian dollars)

## 7. PROMISSORY NOTE

On January 22, 2020, the Company entered into a Demand Grid Promissory Note of up to $5,000,000 with Fundco. The loan bears interest at 5% per annum accrued annually, secured by a general security agreement over all the Company's assets and is payable on demand.

Reconciliation of the promissory note is as follows:

| | | |
|---|---|---|
| **Balance, June 30, 2019** | **$** | **-** |
| Advances | | 1,919,250 |
| Interest expense | | 24,949 |
| **Balance at June 30, 2020** | **$** | **1,944,199** |
| Advances | | 1,305,000 |
| Interest expense | | 30,299 |
| **Balance at September 30, 2020** | **$** | **3,279,498** |

## 8. CONVERTIBLE DEBENTURES

a) On May 7, 2019, the Company entered into a convertible debenture of $240,000 with Fundco, secured by a general security agreement over all the Company's assets. The loan bears interest at 5% per annum accrued annually and is repayable on May 7, 2021. The debt is automatically convertible into common shares and warrants of the Company immediately prior to a proposed transaction such that the holder of the promissory note will receive one share and one warrant of a related public company (Note 14) for each $0.02 of the debt principal. All accrued and unpaid interest will be forfeited. The warrants will be exercisable at $0.05 per share for a period of two years from the date of the closing of the transaction. As at September 30, 2020, the principal amount of convertible debt outstanding is $240,000 excluding interest of $16,663 (June 30, 2020 - $240,000 excluding interest of $12,033).

b) On June 7, 2019, the Company entered into a convertible debenture with Fundco of up to $1,000,000, secured by a general security agreement over all the Company's assets. The loan bears interest at 5% per annum accrued annually and is repayable on June 7, 2021. The debt is automatically convertible into common shares of the Company immediately prior to a proposed transaction such that the holder of the promissory note will receive one share of a related public company for each $0.075 of the debt principal. All accrued and unpaid interest was forfeited. On December 19, 2019, the Company issued 5,000,000 common shares to Fundco upon conversion of $1,000,000 principal loan amount at $0.20 per share based on and agreed upon conversion ratio of 2.6666667 and accrued interest of $22,940 was forgiven.

c) On December 19, 2019, the Company entered into a convertible debenture of up to $860,000 with Fundco, secured by a general security agreement over all the Company's assets. The loan bears interest at 5% per annum accrued annually and is repayable on December 19, 2021. The conversion terms on this loan results in the lender receiving one share of the related public company (Note 13) for each $0.30 of principal debt and forfeiture of accrued and unpaid interest. As at September 30, 2020, the principal amount of convertible debenture outstanding is $860,000 excluding interest of $33,575 (June 30, 2020 - $860,000 excluding interest of $24,242).

(Unaudited - Expressed in Canadian dollars)

## 8. CONVERTIBLE DEBENTURES (CONTINUED)

Reconciliation of the convertible debentures are as follows:

| | | |
|---|---|---|
| **Balance, June 30, 2019** | **$** | **402,110** |
| Advances | | 1,700,000 |
| Interest expense | | 57,205 |
| Conversion into common shares | | (1,000,000) |
| Interest expense forgiven | | (22,940) |
| **Balance at June 30, 2020** | **$** | **1,136,375** |
| Interest expense | | 13,863 |
| **Balance at September 30, 2020** | **$** | **1,150,238** |
| | | |
| **Current portion** | | **256,663** |
| **Long-term portion** | | **893,575** |
| | **$** | **1,150,238** |

## 9. SHARE CAPITAL

**Authorized**

The Company has authorized share capital of an unlimited number of common shares without par value.

**Issued and outstanding**

Three months ended September 30, 2020:

There was no capital activity during the three months ended September 30, 2020.

Year ended June 30, 2020:

The Company issued 5,000,000 common shares at $0.20 per share upon conversion of convertible debenture as described in Note 8(b).

(Unaudited - Expressed in Canadian dollars)

## 9. SHARE CAPITAL (CONTINUED)

### Stock options

On June 30, 2020, the Company finalized its Stock Option Plan (the "Plan") which provides that the Committee or Board of Directors ("the Committee") of the Company may from time to time, in its discretion, grant to directors, officers, employees and technical consultants and contractors to the Company, non-transferable options to purchase common shares of the Company.

All options granted pursuant to the Plan shall be subject to the terms and conditions of the Plan. The number of shares which will be available for purchase pursuant to an option will be equal to the number of shares as determined by the Committee from time to time. If any option expires or otherwise terminates for any reason without having been exercised in full, the number of shares in respect of such expired or terminated option shall again be available for the purposes of granting options pursuant to the Plan. The grant date and the expiry date of an option shall be the dates fixed by the Committee at the time the option is granted and shall be set out in the option certificate issued in respect of such option, provided that the expiry date shall be no later than the tenth anniversary of the grant date of the option. The exercise price shall also be determined by the Committee and set out in the option certificate issued in respect of the option.

During the three months ended September 30, 2020, stock-based compensation in the amount of $78,153 (2019 - $Nil) was recognized on the vesting of stock options granted to directors, officers and consultants during the year ended June 30, 2020. No stock options were granted during the three months ended September 30, 2020.

The continuity of stock options for the three-month period ended September 30, 2020 and the year ended June 30, 2020 is summarized below:

| | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|
| **Balance, June 30, 2019** | – | – |
| Granted | 2,255,002 | $0.23 |
| **Balance, June 30, 2020 and September 30, 2020** | **2,255,002** | **$0.23** |

The following table summarizes the stock options outstanding and exercisable at September 30, 2020:

| NUMBER OF OPTIONS | | EXERCISE | |
|---|---|---|---|
| OUTSTANDING | EXERCISABLE | PRICE | EXPIRY DATE |
| 1,523,752 | 952,345 | $0.20 | November 1, 2024 |
| 187,500 | - | $0.05 | 2 years from date of listing |
| 318,750 | 139,453 | $0.05 | March 1, 2025 |
| 225,000 | - | $0.80 | 2 years from date of listing |
| **2,255,002** | **1,091,798** | | |

As at September 30, 2020, the weighted average remaining contractual life of all options outstanding was 3.74 years (June 30, 2020 – 3.97 years).

(Unaudited - Expressed in Canadian dollars)

## 10. RELATED PARTY TRANSACTIONS

### Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members.

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All amounts either due from or due to related parties other than specifically disclosed are non-interest bearing, unsecured and have no fixed terms of repayments. Except as disclosed elsewhere in the financial statements, related party transactions for the three months ended September 30, 2020 and 2019 are as follows:

a) Related party transactions with directors and former directors and companies and entities over which they have significant influence over

| | **THREE MONTHS ENDED SEPTEMBER 30,** | |
|---|---|---|
| | **2020** | 2019 |
| | **$** | $ |
| Consulting fees | **–** | 29,782 |

b) Key management compensation

| | **THREE MONTHS ENDED SEPTEMBER 30,** | |
|---|---|---|
| | **2020** | 2019 |
| | **$** | $ |
| Management salaries and short-term benefits | **155,000** | 22,742 |
| Share-based compensation | **65,857** | – |

c) As at September 30, 2020, the Company has an amount owing to a director of $200 (June 30, 2020 - $200) and amount owing to a former director and shareholder amounting to $18,161 (June 30, 2020 - $18,161).

(Unaudited - Expressed in Canadian dollars)

## 11. RIGHT-OF-USE ASSET AND LEASE LIABILITY

The Company has a lease agreement for the headquarter office space in Pemberton, British Columbia. On April 30, 2020 upon entering into a lease, the Company recognized $538,948 for a right-of-use ("ROU") asset and $538,948 for a lease liability. This lease liability was measured using an incremental borrowing rate of 5%.

During the year ended June 30, 2020, the Company advanced $542,100 to Vitalis Extraction Technologies Inc. as a 50% deposit towards the purchase of extraction equipment which was recorded under long-term deposits account in the statement of financial position. The total purchase price is $1,084,200. During the three months ended September 30, 2020, the Company entered into a lease agreement with a third party to lease the remaining 50% of the equipment. The Company has the option to purchase the equipment at the end of the term of the lease at the lesser of $54,210 or the fair value of the equipment at that time. Upon delivery of the equipment and commencement of the lease, the Company recognized $1,119,969 for a ROU asset and $577,869 for a lease liability. This lease liability was measured using an incremental borrowing rate of 15%.

The continuity of the ROU asset and lease liability for the three months ended September 30, 2020 and the year ended June 30, 2020 is as follows:

| **Right-of-use asset** | Office | Equipment | Total |
|---|---|---|---|
| Lease, as at April 30, 2020 | 538,948 | - | 538,948 |
| Amortization | (17,965) | - | (17,965) |
| As at June 30, 2020 | 520,983 | - | 520,983 |
| Addition | | 1,119,969 | 1,119,969 |
| Amortization | (26,947) | (37,333) | (64,280) |
| **As at September 30, 2020** | **494,036** | **1,082,636** | **1,576,672** |
| **Lease liability** | | | |
| Lease liability, as at April 30, 2020 | 538,948 | - | 538,948 |
| Lease payments | (12,433) | - | (12,433) |
| Lease interest | 2,203 | - | 2,203 |
| **As at June 30, 2020** | **528,718** | **-** | **528,718** |
| Lease liability recognized | - | 577,869 | 577,869 |
| Lease payments | (39,600) | (55,680) | (95,280) |
| Lease interest | 8,619 | 13,714 | 22,333 |
| **As at September 30, 2020** | **497,737** | **535,903** | **1,033,640** |
| Current portion | 96,095 | 153,215 | 249,310 |
| Long-term portion | 401,642 | 382,688 | 784,330 |
| | **497,737** | **535,903** | **1,033,640** |

(Unaudited - Expressed in Canadian dollars)

## 12. COMMITMENTS

The Company entered into a lease agreement for the headquarter office space on April 30, 2020 with an initial five-year term (Note 11).

Payments committed for the next five fiscal years are as follows:

| Year | Amount $ |
|---|---|
| 2021 | 89,100 |
| 2022 | 118,800 |
| 2023 | 120,000 |
| 2024 | 126,000 |
| 2025 | 105,000 |
| | 558,900 |

The Company entered into a lease agreement for extraction equipment commencing August 10, 2020, whereby the Company will make monthly lease payments of $18,560 over a term of 3 years (Note 11).

Payments committed for the next three fiscal years are as follows:

| Year | Amount $ |
|---|---|
| 2021 | 222,721 |
| 2022 | 222,721 |
| 2023 | 167,041 |
| | 612,483 |

## 13. SEGMENTED INFORMATION

The Company operates in one business segment, which is the extraction and processing of cannabis and hemp. The Company's long-term assets are in Canada.

## 14. SUBSEQUENT EVENTS

Subsequent to the three months ended September 30, 2020:

- On October 20, 2020, the Company entered into an amalgamation agreement (the "Amalgamation") with Big Sky and a newly incorporated wholly owned subsidiary of Big Sky, ("Subco"), pursuant to which Big Sky acquired all of the Company's issued and outstanding shares by way of a "three-cornered" amalgamation whereby:

  (1) The Company and Subco amalgamated, thereby forming one corporation ("Amalco");

  (2) each shareholder of the Company transferred their shares to Big Sky in exchange for common shares of Big Sky (the "Big Sky Common Shares") on the basis of 2.6666666 Big Sky Common Shares for each share of the Company, resulting in an aggregate of 63,621,026 Big Sky Common Shares being issued to the Company's former shareholders;

  (3) Big Sky received one fully paid and non-assessable common share of Amalco for each common share of Subco held Big Sky, following which all such common shares of Subco were cancelled;

  (4) For each Big Sky Common Share issued in the Amalgamation, Big Sky received one common share of Amalco and Amalco became a wholly-owned subsidiary of Big Sky; and

  (5) options, warrants and performance securities of Big Sky were issued to the holders of the Company's options, warrants and performance securities, respectively, in exchange and replacement for, on an equivalent basis, of the Company's options, warrants and performance securities, which were then cancelled.

  Prior to the completion of the Amalgamation, all convertible notes automatically converted into 20,857,891 common shares based on the deemed conversion price prescribed in the terms, which common shares were then exchanged for Big Sky Common Shares pursuant to the Amalgamation.

  The Amalgamation was approved by the written consent of all of the Company's shareholders and by Big Sky, in its capacity as sole shareholder of Subco. The Amalgamation was approved, pursuant to CSE Policies, by the written consent of greater than 50% of the Big Sky's pre-Amalgamation shareholders.

  On October 28, 2020, concurrently with the completion of the Amalgamation, Big Sky changed its name to "Pure Extracts Technologies Corporation" and Amalco continued under the name "Pure Extracts Manufacturing Corp." On November 5, 2020, Big Sky's stock commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "PULL".

  The Amalgamation is considered to be a reverse takeover of Big Sky by the Company, where the Company is deemed to be the acquirer for accounting purposes.

- The Company entered into a share repurchase agreement with Fundco, whereby the Company repurchased 5,000,000 common shares of the Company from Fundco for a consideration of $1,000,000, which will be repaid through a convertible promissory note, secured by a general security agreement over all the Company's assets. The loan bears interest at 5% per annum accrued annually and is repayable in 2 years. The debt was converted into common shares of the Company immediately prior to the Amalgamation such that the holder of the promissory note received one share of Big Sky for each $0.075 of the debt principal.