# PURE EXTRACTS TECHNOLOGIES CORP.

## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED

## JUNE 30, 2021 AND 2020

## (EXPRESSED IN CANADIAN DOLLARS)

## Contents

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF PURE EXTRACTS TECHNOLOGIES CORP. (FORMERLY "BLUE SKY PETROLEUM CORPORATION")

### *Opinion*

We have audited the consolidated financial statements of Pure Extracts Technologies Corp. (formerly "Blue Sky Petroleum Corporation) (the "Company"), which comprise:

- the consolidated statements of financial position as at June 30, 2021 and 2020;
- the consolidated statements of operations and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity (deficiency) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2021 and 2020, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $20,693,242 during the year ended June 30, 2021 and, as of that date, the Company's working capital deficiency is $2,268,758. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Smythe LLP | **smythecpa.com**

**Vancouver**
1700 - 475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

**Langley**
600 - 19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

**Nanaimo**
201 - 1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Michelle Chi Wai So.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia

October 26, 2021

**PURE EXTRACTS TECHNOLOGIES CORP.**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

| As at June 30, | | **2021** | | 2020 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash | **$** | **1,629,383** | $ | 134,395 |
| Prepaid expenses (Note 5) | | **248,529** | | 94,336 |
| Accounts receivable and other receivables | | **218,784** | | 177,295 |
| Inventory (Note 6) | | **720,192** | | 7,817 |
| Deferred costs | | **67,901** | | - |
| Due from related party (Note 13) | | **401,208** | | - |
| Short-term loan receivable (Note 9) | | **-** | | 390,087 |
| Total current assets | | **3,285,997** | | 803,930 |
| Long-term deposits (Note 14) | | **165,997** | | 737,921 |
| Property and equipment (Note 7) | | **2,772,628** | | 2,365,843 |
| Right-of-use asset (Note 14) | | **2,273,500** | | 520,983 |
| Total assets | **$** | **8,498,122** | $ | 4,428,677 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities (Note 8) | **$** | **589,573** | $ | 618,061 |
| Due to related parties (Note 13) | | **200** | | 18,361 |
| Deferred revenue | | **82,191** | | - |
| Loan payable (Note 9) | | **-** | | 1,711,016 |
| Promissory note (Note 10) | | **-** | | 1,944,199 |
| Convertible debentures – short term (Note 11) | | **-** | | 252,033 |
| Lease liability – short term (Note 14) | | **345,275** | | 102,601 |
| Total current liabilities | | **1,017,239** | | 4,646,271 |
| Convertible debentures – long term (Note 11) | | **-** | | 884,342 |
| Lease liability – long term (Note 14) | | **1,312,575** | | 426,117 |
| Total liabilities | | **2,329,814** | | 5,956,730 |
| Shareholders' equity (deficiency) | | | | |
| Share capital (Note 12) | | **23,283,105** | | 1,480,000 |
| Reserves (Note 12) | | **6,686,058** | | 99,560 |
| Deficit | | **(23,800,855)** | | (3,107,613) |
| Total shareholders’ equity (deficiency) | | **6,168,308** | | (1,528,053) |
| Total liabilities and shareholders’ equity (deficiency) | **$** | **8,498,122** | $ | 4,428,677 |

**Approved and authorized for issuance by the Board of Directors on, October 26, 2021:**

*/s/ Dwight Duncan*
Name, Director

*/s/ Sean Bromley*
Name, Director

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

**PURE EXTRACTS TECHNOLOGIES CORP.**

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

| | For the years ended June 30, | |
|---|---|---|
| | **2021** | 2020 |
| Revenue | **$ 102,113** | $ - |
| Cost of goods sold | **160,545** | - |
| Gross Margin | **(58,432)** | |
| Operating expenses | | |
| Amortization (Notes 7 and 14) | **686,601** | 17,965 |
| Advertising and promotion | **3,747,222** | 46,576 |
| Consulting (Note 13) | **1,178,148** | 378,154 |
| Insurance | **60,673** | 26,816 |
| Interest and bank charges (Notes 10, 11 and 14) | **205,361** | 83,554 |
| Inventory wastage (Note 6) | **236,504** | - |
| Licenses | **36,870** | - |
| Office and administrative | **287,372** | 76,863 |
| Office and equipment rental | **55,930** | 146,502 |
| Professional fees | **486,941** | 412,266 |
| Repairs and maintenance | **28,870** | 20,659 |
| Research and development | **34,976** | - |
| Salaries and benefits (Note 13) | **1,625,320** | 511,356 |
| Share-based compensation (Notes 12 and 13) | **8,200,020** | 99,560 |
| Shareholder information | **170,314** | - |
| Supplies | **58,764** | 31,122 |
| Utilities | **11,133** | 19,417 |
| Transfer agent and regulatory fees | **84,184** | - |
| Travel and entertainment | **44,571** | 113,342 |
| Total operating expenses | **17,239,774** | 1,984,152 |
| Other income | | |
| Gain on forfeiture of interest (Notes 10 and 11) | **139,787** | 22,940 |
| Gain on write-off of accounts payable | **26,455** | - |
| Interest income | **1,207** | 22,813 |
| Listing expense (Note 4) | **(3,158,418)** | (1,000,000) |
| Write-off of loan receivable and deposits (Note 9) | **(427,087)** | - |
| Foreign exchange gain | **23,020** | - |
| Net loss and comprehensive loss for the year | **$ (20,693,242)** | $ (2,938,399) |
| Basic and diluted loss per share | **$ (0.32)** | $ (0.52) |
| Weighted average number of shares outstanding | 64,107,846 | 5,650,273 |

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

**PURE EXTRACTS TECHNOLOGIES CORP.**
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(Expressed in Canadian dollars)

| | Share capital | | | | |
|---|---|---|---|---|---|
| | Number of shares | Amount | Reserves | Deficit | Total |
| Balance, June 30, 2019 | 7,999,875 | $ 480,000 | $ - | $ (169,214) | $ 310,786 |
| Shares issued on conversion of debenture | 13,333,125 | 1,000,000 | - | - | 1,000,000 |
| Share-based compensation | - | - | 99,560 | - | 99,560 |
| Net loss and comprehensive loss for the year | - | - | - | (2,938,399) | (2,938,399) |
| Balance, June 30, 2020 | 21,333,000 | 1,480,000 | 99,560 | (3,107,613) | (1,528,053) |
| Repurchase of common shares | (13,333,000) | (1,000,000) | - | - | (1,000,000) |
| Shares issued for conversion of debenture | 55,621,026 | 9,399,148 | - | - | 9,399,148 |
| Share issuance cost - cash | - | (270,477) | - | - | (270,477) |
| Issuance of performance securities | - | - | 3,566,429 | - | 3,566,429 |
| Shares issued for reverse take-over | 2,079,511 | 623,853 | - | - | 623,853 |
| Finders' fee | 5,000,000 | 1,500,000 | - | - | 1,500,000 |
| Broker warrants issued for convertible debt financing | - | (105,129) | 105,129 | - | - |
| Shares issued for exercise of options | 2,964,667 | 1,365,410 | (586,185) | - | 779,225 |
| Shares issued for exercise of warrants | 942,500 | 47,125 | - | - | 47,125 |
| Shares issued for exercise of performance securities | 5,136,500 | 1,644,040 | (1,541,310) | - | 102,730 |
| Shares issued for services | 1,200,000 | 720,000 | - | - | 720,000 |
| Special warrant financing | - | - | 8,532,223 | - | 8,532,223 |
| Conversion of special warrants | 16,895,491 | 8,532,223 | (8,532,223) | - | - |
| Special warrant issuance costs - cash | - | (244,244) | - | - | (244,244) |
| Special warrant issuance costs - broker warrants | - | (408,844) | 408,844 | - | - |
| Share-based compensation | - | - | 4,633,591 | - | 4,633,591 |
| Net loss and comprehensive loss for the year | - | - | - | (20,693,242) | (20,693,242) |
| **Balance, June 30, 2021** | **97,839,695** | **$ 23,283,105** | **$ 6,686,058** | **$ (23,800,855)** | **$ 6,168,308** |

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

**PURE EXTRACTS TECHNOLOGIES CORP.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

| | For the year ended June 30, **2021** | 2020 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss for the year | **$ (20,693,242)** | $ (2,938,399) |
| Non-cash items | | |
| Amortization | **686,601** | 17,965 |
| Accrued interest | **77,255** | 84,357 |
| Share-based compensation | **8,200,020** | 99,560 |
| Shares issued for advertising services | **720,000** | - |
| Gain on forfeiture of interest | **(139,787)** | (22,940) |
| Gain on write-off of accounts payable | **(26,455)** | - |
| Write-off of loan receivable and deposits | **427,087** | - |
| Listing expense | **2,381,563** | - |
| Changes in non-cash operating working capital: | | |
| Prepaid expenses | **(154,193)** | (89,351) |
| Accounts receivable and other receivables | **(40,301)** | (160,792) |
| Inventory | **(608,123)** | (7,817) |
| Deposits | **-** | (47,000) |
| Deferred costs | **(67,901)** | - |
| Accounts payable and accrued liabilities | **(271,364)** | 364,186 |
| Due to related parties | **(18,161)** | 18,361 |
| Deferred revenue | **82,191** | - |
| Net cash used in operating activities | **(9,444,810)** | (2,681,870) |
| **INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | **(801,210)** | (1,499,980) |
| Advances for property and equipment | **-** | (685,065) |
| Cash received on acquisition of Big Sky Petroleum | **10,433** | - |
| Net cash used in investing activities | **(790,777)** | (2,185,045) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from loan payable | **-** | 1,320,929 |
| Loans receivable | **(400,000)** | - |
| Proceeds from promissory note | **-** | 1,919,250 |
| Proceeds from convertible debt, net of issuance cost | **3,408,405** | 1,700,000 |
| Lease liability payments | **(278,842)** | (12,433) |
| Down payment for leases | **(55,905)** | - |
| Proceeds received on Special Warrants financing, net of issuance cost | **8,287,979** | - |
| Proceeds from the exercise of options, warrants, and performance securities | **929,080** | - |
| Security deposit paid on commencement of lease | **(160,142)** | - |
| Net cash provided by financing activities | **11,730,575** | 4,927,746 |
| Change in cash | **1,494,988** | 60,831 |
| Cash, beginning of year | **134,395** | 73,564 |
| Cash, end of year | **$ 1,629,383** | $ 134,395 |

**Supplemental cashflow information (Note 17)**

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Pure Extracts Technologies Corporation (formerly Big Sky Petroleum Corporation) (the "Company") was incorporated under the Canada Business Corporations Act on February 3, 2006 and, effective July 6, 2009, changed its continuance out of the federal jurisdiction into the British Columbia jurisdiction under the Business Corporations Act (British Columbia). Starting November 5, 2020, the Company's stock commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "PULL" (see Note 4). The principal and registered office of the Company is at 7341 Industrial Way, Pemberton, British Columbia, V0N 2K0.

The Company is in 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 Mushrooms Corp. ("Pure Mushrooms"), a wholly-owned subsidiary of the Company, was incorporated on January 27, 2021 under the laws of the province of British Columbia. On March 3, 2021, a dealer's license application was submitted to Health Canada for controlled substances. Once granted, Pure Mushrooms would be permitted to cultivate and/or purchase psychedelic mushrooms and extract and sell compounds such as psilocybin.

*Reverse takeover*

On October 20, 2020, the Company and Pure Extract Manufacturing Corp. ("Pure Manufacturing") entered into an agreement (the "Amalgamation Agreement") pursuant to which the Company acquired all of the issued and outstanding common shares of Pure Manufacturing (the "Acquisition" or the "RTO") for 2.666 common shares of the Company for each common share of Pure Manufacturing which became a wholly-owned subsidiary of the Company. The Acquisition closed on October 28, 2020.

As a result of the Acquisition, the former shareholders of Pure Manufacturing acquired control of the Company and is deemed as the acquirer for accounting purposes, and therefore its assets, liabilities and operations are included in the consolidated financial statements at their historical carrying value. The Company's operations are considered to be a continuance of the business and operations of Pure Manufacturing. The Company's results of operations are those of Pure Manufacturing, with the Company's operations being included from October 28, 2020, the closing date of the Acquisition, onwards (Note 4).

These consolidated 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 year ended June 30, 2021, the Company incurred a net loss of $20,693,242 (2020 - $2,938,399). As at June 30, 2021, the Company has working capital of $2,268,758 (2020 – working capital deficiency of $3,842,341) and an accumulated deficit of $23,800,855 (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 consolidated 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 consolidated 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 production and sale of cannabis have been recognized as essential services across Canada and the Company's facilities in Pemberton, BC remain operational. The Company has taken various measures to prioritize the health and safety of their employees, customers and partners, including: restricted work travel and site access; improved safety & hygiene; and the requirement of non-essential staff members to work remotely. Possible impact of COVID-19 on the Company's operational and financial performance are and not limited to ongoing supply disruptions for cannabis product related inventory, further restrictions and closures, lack of employees due to COVID-19 quarantine and illness time taken off work.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and using the accrual basis of accounting, except for cash flow information. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). As described in this Note 2, significant accounting policies have been consistently applied in the presentation of these consolidated financial statements.

The consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries' (Pure Manufacturing and Pure Mushrooms) functional currency.

The consolidated financial statements of the Company for the year ended June 30, 2021 were approved and authorized for issue by the Board of Directors on October 26, 2021.

### Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are those entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. Details of the Company's subsidiaries are as follows:

| SUBSIDIARIES | OWNERSHIP PERCENTAGE | JURISDICTION OF INCORPORATION |
|---|---|---|
| Pure Manufacturing | 100% | British Columbia, Canada |
| Pure Mushrooms | 100% | British Columbia, Canada |

Inter-company balances and transactions are eliminated on consolidation.

### Significant accounting judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated 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 the current and future periods.

The following are the judgments that have been made in applying the Company's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

*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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Significant accounting judgments and estimates** (CONTINUED)

*Income taxes*

Income assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. The Company believes that its accruals for tax balances are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. These differences could materially impact net income (loss).

*Business combinations*

At the time of acquisition, the Company considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Company accounts for an acquisition as a business combination where an integrated set of activities and assets, is acquired. More specifically, consideration is given to the extent to which significant processes are acquired.

When the acquisition of subsidiaries does not represent a business combination, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

*Control*

At the time of acquisition, the Company assesses whether it has control over the acquiree. Control exists when the Company has power over an entity, when the Company is exposed, or has rights, to variable returns from the entity and when the Company has the ability to affect those returns through its power over the entity. Where control exists, the Company consolidates the results of the acquired entity.

In the acquisition of Pure Manufacturing, it was determined that control resides with Pure Manufacturing as the former shareholders of Pure Manufacturing became the majority shareholders of the combined entity. As a result, the transaction was accounted for as a reverse takeover.

*Research and development expenditures*

Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically and economically feasible, which management assessed based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any product development costs as at June 30, 2021 and 2020.

The following are the estimates and assumptions that have been made in applying the Company’s accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

*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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Significant accounting judgments and estimates** (CONTINUED)

*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. During the year ended June 30, 2021, the Company wrote off a short-term loan receivable of $427,087 (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.

*Fair value of consideration in reverse take-over transaction*

The fair value of consideration to acquire the Company in the reverse take-over transaction comprised of common shares. Common shares were fair valued on the date of issuance. The Company applied IFRS 2 *Share-based Payment* in accounting for the Acquisition.

*Leases - Estimating the incremental borrowing rate*

The Company cannot readily determine the interest rate implicit in leases where it is the lessee. As such, it uses its Incremental Borrowing Rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of comparable value to the right-of-use asset in a similar economic environment. IBR therefore reflects what the Company "would have to pay", which requires estimation when no observable rates are available or where the applicable rates need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Significant accounting judgments and estimates** (CONTINUED)

*Impairment of Long-Lived Assets*

The Company reviews the carrying amounts of its non-financial assets, including property and equipment and right-of-use assets, when events or changes in circumstances indicate the assets may not be 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. The Company considered various factors including, but not limited to, the condition of its long lived assets, economic factors that may impact the value of the long-lived assets and any indications of obsolescence.

*Inventory*

Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined with reference to the estimated selling price. The Company estimates selling price based upon assumptions about future demand and current and anticipated retail market conditions.

**Financial instruments**

*Financial assets*

Initial recognition and measurement

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss. Financial assets are initially recognized at fair value plus transaction costs directly attributable to the asset, except for transaction costs for financial assets measured at fair value through profit or loss which are expensed as incurred.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Assessment and decision on the business model approach used is an accounting judgment.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss ("FVTPL")*

Financial assets measured at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value therein, recognized in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments** (CONTINUED)

*Financial assets measured at fair value through other comprehensive income ("FVTOCI")*

Financial assets measured at fair value through other comprehensive income are measured at fair value with changes in fair value included in other comprehensive income.

*Financial assets measured at amortized cost*

Financial assets are subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance, if:

- the asset is held within a business whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

*Impairment*

In relation to the impairment of financial assets, IFRS requires an expected credit loss model. The expected credit loss model requires the Company to account for expected credit losses ("ECL") and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

*Derecognition*

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

*Financial liabilities*

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

*Fair value hierarchy*

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (CONTINUED)

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for assets or liabilities that are not based on observable market data, comprehensive income or loss.

The Company's financial instruments are accounted for as follows:

| | |
|---|---|
| **Financial Asset** | |
| Cash | FVTPL |
| Accounts receivable and other receivables | Amortized cost |
| Loan receivable | Amortized cost |
| Due from related party | Amortized cost |
| **Financial Liability** | |
| Accounts payable and accrued liabilities | Amortized cost |
| Due to related parties | Amortized cost |
| Loans payable | Amortized cost |
| Promissory note | Amortized cost |
| Lease liability | Amortized cost |
| Convertible debentures | FVTPL |

### Property and equipment

Property and equipment is recorded at historical cost less related accumulated amortization and impairment losses. Cost is determined as the expenditure directly attributable to the asset at acquisition, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. When an asset is disposed of, its carrying cost is derecognized. All repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

The Company provides for amortization of property and equipment on a straight-line basis unless otherwise noted using the following annual rates:

| | |
|---|---|
| Leasehold improvements | Straight-line over lease term |
| Manufacturing equipment | Straight-line over 5 years |
| Security equipment | Straight-line over 5 years |
| Extraction equipment | Straight-line over 5 years |
| Testing equipment | Straight-line over 5 years |

Additions during the year are amortized on a pro-rated basis. No amortization is recorded until the assets are put into use.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Inventory

Inventory consists primarily of work in progress and raw materials. Inventory is valued at the lower of cost and net realizable value with cost based upon the weighted average method of inventory costing. The net realizable value of finished goods is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of finished goods inventory is based on landed cost, which includes all costs incurred to bring inventory to the Company's distribution centers including product costs, inbound freight and duty. If the Company determines that the estimated net realizable value of its inventory is less than the carrying value of such inventory, it records a charge to cost of sales.

### Revenue Recognition

The Company recognizes revenue in accordance with IFRS 15 "Revenue from Contracts with Customers".

Revenue is recognized upon the satisfaction of performance obligations. Performance obligations are satisfied at the point at which control of the promised goods or services are transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to receive for those goods and services.

(a) Tolling revenue

The Company offers toll processing services whereby the Company manufactures their customers' final product from raw materials provided by the customers for an agreed upon fee. These arrangements predominantly contain a single performance obligation and revenue is recognized at a single point in time when ownership, risks and rewards transfer, which is typically the date of shipment of the finished product by the Company once the service is complete. A provision for payment discounts and product return allowances is recorded as a reduction of sales in the same period the revenue is recognized. The revenue recorded is presented net of sales and other taxes the Company collect on behalf of governmental authorities. Amounts received from customers in advance of revenue recognition are deferred as deferred revenue. Costs incurred in the process of manufacturing the final product are presented as deferred costs on the consolidated statement of financial position and expensed as cost of goods sold through the consolidated statement of loss and comprehensive loss when the associated revenue is recognized.

(b) Sale of cannabis and mushroom products

The Company's revenue is generated from the sale of finished product to customers. These sales predominantly contain a single performance obligation and revenue is recognized at a single point in time when ownership, risks and rewards transfer, which is typically the date of shipment by the Company. A provision for payment discounts and product return allowances is recorded as a reduction of sales in the same period the revenue is recognized. The revenue recorded is presented net of sales and other taxes the Company collect on behalf of governmental authorities. Amounts received from customers in advance of revenue recognition are deferred as deferred revenue.

### Share capital

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are issued, and any excess is allocated to warrants.

Incremental costs directly attributed to the issuance of common shares are shown in equity as a reduction, net of tax, of the proceeds received on issue. Shares issued for non-monetary consideration are valued based on the fair value of the goods or services received unless the fair value of the shares are a more reliable measure.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Share-based Compensation

The Company has a stock option plan, described in Note 12 which grants stock options to the Company's directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of the options is measured using the Black-Scholes option pricing model and is recognized over the vesting period. For directors and employees, the fair value of the options is measured at the date of grant. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The offset to the recorded cost is recorded to share-based compensation reserve. Consideration received on the exercise of stock options is recorded as share capital and the recorded amount to share-based compensation reserve is transferred to share capital. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is charged to profit or loss. For unexercised options that expire, the recorded value in share-based compensation reserve is transferred to deficit.

### Impairment of long-lived assets

The carrying amount of the Company's long-lived assets (which includes equipment and right of use assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit ("CGU") exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of loss and comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in previous periods.

### Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share. Stock options, share purchase warrants, and other equity instruments are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options, warrants and other equity instruments.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases

At inception, the Company assesses whether a contract contains an embedded lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company, as lessee, is required to recognize a right-of-use asset ("ROU asset"), representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

The Company recognizes a ROU asset and a lease liability at the commencement of the lease. The ROU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated depreciation, impairment losses and adjusted for certain remeasurements of the lease liability. The ROU asset is depreciated from the commencement date over the shorter of the lease term or the useful life of the underlying as set. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The incremental borrowing rate is the rate which the operation would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise;
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the ROU asset and lease liability are recognized as an expense in the consolidated statements of operations and comprehensive loss in the period in which they are incurred.

The ROU assets are presented within "Right-of-use asset" and the lease liabilities are presented in "Lease liability" on the consolidated statements of financial position.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a remaining lease term of 12 months or less and leases of low-value assets.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Foreign exchange**

*Functional currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"), which has been determined to be the Canadian dollar.

*Foreign currency transaction and balances*

Transactions in currencies other than the entity's functional currency are recorded at the average rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities are translated using the period-end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. The resulting foreign exchange gains or losses are recorded in profit or loss.

**Income taxes**

Current income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

## 3. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

**Fair values**

The Company's financial instruments classified as level 1 in the fair value hierarchy are cash, accounts receivable and other receivables, short-term loan receivable, accounts payable and accrued liabilities, and due to and from 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.

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

### 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 June 30, 2021 in the amount of $1,629,383 (2020 - $134,395), in order to meet short-term liabilities of $1,017,239 (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 Company's accounts payable and accrued liabilities and due to related parties are due within 90 days of June 30, 2021. The Company's undiscounted cash flow commitments on the leases are disclosed in Note 15.

### 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. 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 carrying amount of financial assets represents the maximum credit exposure. Furthermore, the Company is exposed to credit risk associated with the due from related party. The amount receivable is collateralized by the related party's holdings in the Company securities. During the year ended June 30, 2021, the Company wrote off a short-term loan receivable of $427,087 (2020 - $Nil).

### 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 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. 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 end 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.

(Expressed in Canadian dollars)

## 4. REVERSE TAKEOVER

As described in Note 1, on October 28, 2020, the Company completed a reverse takeover ("RTO") with Pure Manufacturing which became a wholly owned subsidiary of the Company. In consideration for the RTO, the Company issued 2.666 common shares for each share of Pure Manufacturing for a total of 63,621,026 common shares of the Company to shareholders of Pure Manufacturing.

As a result of the RTO, the former shareholders of Pure Manufacturing acquired control of the Company, thereby constituting a reverse takeover of the Company. The RTO is considered a purchase of the Company's net assets by the shareholders of Pure Manufacturing.

The transaction is accounted for in accordance with guidance provided in IFRS 2 *Share-Based Payment* ("IFRS 2") and IFRS 3 *Business Combinations* ("IFRS 3"). As the Company did not qualify as a business according to the definition in IFRS 3 as there were no substantive processes in place, the Acquisition does not constitute a business combination; rather, it is treated as an issuance of shares by Pure Manufacturing for the net assets of the Company and the Company's listing status with Pure Manufacturing as the continuing entity.

In connection with the RTO, a finder's fee was paid through the issuance of 5,000,000 common shares for an aggregate fair value of $1,500,000 and the Company incurred additional transaction costs of $776,855.

In accordance with IFRS 2, the fair value of the share issuance was determined to be $0.30 per common share, based on the estimated fair value at the acquisition date.

A breakdown of the listing expense is as follows:

| | | |
|---|---|---|
| **Consideration:** | | |
| Fair value of shares retained by former Big Sky Petroleum Corporation shareholders (2,079,511 shares at $0.30) | $ | 623,853 |
| Fair value of shares issued to finders (5,000,000 shares at $0.30) | | 1,500,000 |
| Transaction costs | | 776,855 |
| Total consideration | | 2,900,708 |
| **Fair value of net identifiable assets of the Company:** | | |
| Cash | | 10,433 |
| Accounts receivable and other receivables | | 1,188 |
| Accounts payable and accrued liabilities | | (269,331) |
| Total net assets | | (257,710) |
| **Listing expense** | **$** | **3,158,418** |

## 5. PREPAID EXPENSES

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Prepaid expenses | $ | 158,200 | $ | 94,336 |
| Deposits on inventory | | 90,329 | | - |
| | $ | 248,529 | $ | 94,336 |

(Expressed in Canadian dollars)

## 6. INVENTORY

Inventory consisted of raw materials which include hemp, biomass and packaging and work in progress.

| | | **2021** | | **2020** |
|---|---|---|---|---|
| Raw materials | $ | 80,821 | $ | 7,817 |
| Work in progress | | 639,371 | | - |
| | $ | 720,192 | $ | 7,817 |

Included in work in progress inventory is capitalized amortization of $104,254 (2020 - $Nil).

During the year ended June 30, 2021, $61,034 of inventory was expensed through cost of goods sold (2020 - $Nil) and $236,504 of inventory was expensed through inventory wastage (2020 - $Nil).

## 7. PROPERTY AND EQUPMENT

| | | **Leasehold Improvements** | | **Manufacturing Equipment** | | **Security Equipment** | | **Extraction Equipment** | | **Office furniture** | | **Testing equipment** | **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 | | 178,470 | | 95,070 | | 10,503 | | 478,116 | | 6,082 | | 32,969 | 801,210 |
| **As at June 30, 2021** | **$** | **1,766,860** | **$** | **712,844** | **$** | **165,182** | **$** | **483,116** | **$** | **6,082** | **$** | **32,969** | **$3,167,053** |
| **Accumulated Amortization** | | | | | | | | | | | | | |
| As at June 30, 2019 | $ | – | $ | – | $ | – | $ | – | $ | – | $ | – | $ – |
| Amortization | | – | | – | | – | | – | | – | | – | – |
| As at June 30, 2020 | | – | | – | | – | | – | | – | | | – |
| Amortization | | 231,085 | | 92,442 | | 21,815 | | 48,475 | | 608 | | - | 394,425 |
| **As at June 30, 2021** | **$** | **231,085** | **$** | **92,442** | **$** | **21,815** | **$** | **48,475** | **$** | **608** | **$** | **-** | **$ 394,425** |
| **Net Book Value** | | | | | | | | | | | | | |
| As at June 30, 2020 | $ | 1,588,390 | $ | 617,774 | $ | 154,679 | $ | 5,000 | $ | - | $ | - | $2,365,843 |
| **As at June 30, 2021** | **$** | **1,535,775** | **$** | **620,402** | **$** | **143,367** | **$** | **434,641** | **$** | **5,474** | **$** | **32,969** | **$2,772,628** |

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | | **2021** | | 2020 |
|---|---|---|---|---|
| Accounts payable | **$** | **423,019** | $ | 533,939 |
| Accrued professional fees | | **166,554** | | 84,122 |
| | **$** | **589,573** | $ | 618,061 |

## 9. LOAN RECEIVABLE AND LOAN PAYABLE

On December 4, 2019, Pure Manufacturing and 1205457 B.C. Ltd. (“Fundco”), a third-party lender which became a shareholder upon conversion of debenture (Note 11), entered into letter of agreement to assist Pure Manufacturing in providing financing and facilitating the Acquisition (Note 4). Under the terms of this amended agreement, Pure Manufacturing 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 Pure Manufacturing. These costs and expenses shall relate to professional services, marketing services, financial advisory, roadshows, travel, advertising and administrative costs. In addition, Pure Manufacturing 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.

Consequently, Pure Manufacturing recognized loans payable totaling to $1,711,016 as at June 30, 2020 which mainly relates to the transaction costs of $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 5% per annum, secured by all of the personal property of the Third Party.

On January 13, 2020, the Pure Manufacturing entered into an Asset Purchase Option Agreement (“Option Agreement”) with the Third Party, whereby in exchange for 2,666,000 of common shares of Pure Manufacturing, the Third Party will grant Pure Manufacturing 100% interest in three cannabis dispensaries. In consideration for the Option Agreement, Pure Manufacturing paid the Third Party $47,000 (recorded in long-term deposits) which was 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.

Pure Manufacturing 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 Pure Manufacturing.

During the year-ended June 30, 2021, the loan owing from the Third-Party has been called. Due to the uncertainty surrounding the collectability of the loan receivable and deposit, the loan and deposit have been fully provisioned for as at December 31, 2020 and an amount of $427,087 was written off. Additionally, the Option Agreement was terminated.

On October 28, 2020, pursuant to the RTO, Pure Manufacturing settled the loan payable of $1,701,016 to Fundco by issuing 5,670,036 shares of the Company at a fair value of $0.30 per share. The remaining $10,000 was repaid by the Third-Party to Fundco to reduce the amount owing to Pure Manufacturing during the year ended June 30, 2021.

(Expressed in Canadian dollars)

## 10. PROMISSORY NOTE

On January 22, 2020, Pure Manufacturing entered into a Demand Grid Promissory Note ("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 Pure Manufacturing's assets and is payable on demand. On October 28, 2020, the promissory note was amended to a convertible promissory note and the principal was increased to $5,420,301. The debt is automatically convertible into common shares of Pure Manufacturing immediately prior to the RTO (Note 4) such that the holder of the convertible debenture will receive one share of the Company for each $0.30 of the debt principal. All accrued and unpaid interest will be forfeited.

| | | |
|---|---|---|
| **Balance, June 30, 2019** | **$** | **-** |
| Advances | | 1,919,250 |
| Interest expense | | 24,949 |
| **Balance at June 30, 2020** | **$** | **1,944,199** |
| Advances | | 3,369,827 |
| Interest expense | | 58,270 |
| Converted to shares | | (5,289,077) |
| Interest forgiven | | (83,219) |
| **Balance at June 30, 2021** | **$** | **-** |

On October 28, 2020, pursuant to the RTO, the balance of $5,289,077 was converted by issuing 17,630,256 shares of the Company and interest of $83,219 was forgiven.

## 11. CONVERTIBLE DEBENTURES

a) On May 7, 2019, Pure Manufacturing entered into a convertible debenture of $240,000 with Fundco, secured by a general security agreement over all the Pure Manufacturing'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 the RTO (Note 4) such that the holder of the promissory note will receive one share and one warrant ("Unit") 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. On October 28, 2020, the balance of $240,000 was converted into 12,000,000 shares and 12,000,000 warrants at $0.02 per Unit and interest of $17,584 was forgiven.

b) On June 7, 2019, Pure Manufacturing entered into a convertible debenture with Fundco of up to $1,000,000, secured by a general security agreement over all Pure Manufacturing'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 the RTO (Note 4) such that the holder of the promissory note will receive one share of the Company for each $0.075 of the debt principal. All accrued and unpaid interest will be forfeited. On December 19, 2019, Pure Manufacturing issued 13,333,000 common shares to Fundco upon conversion of $1,000,000 principal loan amount and accrued interest of $22,940 was forgiven. On October 9, 2020, the 13,333,000 common shares were repurchased for consideration of $1,000,000, which was repaid through a convertible debenture (Notes 11d and 12).

c) On December 19, 2019, Pure Manufacturing entered into a convertible debenture with Fundco of up to $860,000, secured by a general security agreement over all Pure Manufacturing'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 Company for each $0.30 of principal debt and forfeiture of accrued and unpaid interest upon the RTO (Note 4). On October 28, 2020, pursuant to the RTO, the balance of $860,000 was converted into 2,866,667 common shares of the Company and interest of $36,874 was forgiven.

(Expressed in Canadian dollars)

## 11. CONVERTIBLE DEBENTURES (CONTINUED)

d) On October 9, 2020, Pure Manufacturing entered into a convertible debenture with Fundco of up to $1,309,055, secured by a general security agreement over all Pure Manufacturing'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 the RTO (Note 4) such that the holder of the convertible debenture will receive one share of the Company for each $0.075 of the debt principal. All accrued and unpaid interest will be forfeited. On October 28, 2020, pursuant to the RTO, the balance of $1,309,055 was converted into 17,454,067 common shares of the Company and interest of $2,110 was forgiven.

In connection with the Convertible Debentures, eligible finders received finders' fees in the aggregate amount of $270,477 and were issued an aggregate of 464,992 warrants (Note 12), exercisable for twenty four months from the issue date at a price of $0.50 per common share, subject to acceleration rights of the Company if the volume weighted average closing price of the common shares is greater than $1.00 for a period of 10 consecutive trading days.

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** |
| Advances | | 1,309,055 |
| Interest expense | | 20,193 |
| Conversion into common shares | | (2,409,055) |
| Interest forgiven | | (56,568) |
| **Balance at June 30, 2021** | **$** | **-** |

## 12. SHARE CAPITAL

### Authorized

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

On October 28, 2020, the Company completed the Acquisition, pursuant to which the Company acquired all of the issued and outstanding shares of Pure Manufacturing for 63,621,026 common shares of the Company in the reverse takeover transaction. Immediately following the Acquisition, there were 70,700,537 common shares of the Company issued and outstanding. As the financial statements are considered a continuance of the operations of Pure Manufacturing due to the reverse takeover, all of the share numbers, share prices, and exercise prices in these financial statements have been adjusted, on a retroactive basis, to reflect this exchange.

### Issued and outstanding

Year-ended June 30, 2021:

On October 9, 2020, the Pure Manufacturing entered into a share repurchase agreement with Fundco, whereby the Pure Manufacturing repurchased 13,333,000 common shares of Pure Manufacturing from Fundco for a consideration of $1,000,000, which was repaid through a convertible promissory note (Note 11).

## 12. SHARE CAPITAL (CONTINUED)

On October 28, 2020, the Company issued 55,621,026 common shares for the settlement of $9,399,148 in debt pursuant to the RTO (Notes 9, 10 and 11).

On October 28, 2020, the Company issued 5,000,000 common shares for finders' fees with a fair value of $1,500,000 pursuant to the RTO.

On December 4, 2020, the Company issued 1,200,000 common shares with a fair value of $720,000 to a third party for advertising and marketing services.

On January 5, 2021 and January 21, 2021, the Company closed two tranches of a private placement of special warrants (the "Special Warrants") for a total of 16,895,491 Special Warrants at $0.505 per Special Warrant for gross proceeds of $8,532,223. The Special Warrants automatically convert to units upon the earlier of the receipt for a final prospectus qualifying the distribution of the units or May 21, 2021. The Special Warrants are recorded at their estimated fair value which is based on the amount of cash subscriptions received. In conjunction with the private placement of the Special Warrants, the Company paid finders' fees of $244,244 and granted 632,620 broker warrants. Each warrant will entitle the holder to acquire one common share at an exercise price of $0.65 for two years. The fair value of the broker warrants were estimated to be $408,844 based on the Black-Scholes Option Pricing Model using the following assumptions: expected dividend yield - 0%, expected volatility - 250%, risk-free interest rate - 0.13% and an expected remaining life - 2.0 years.

On March 11, 2021, upon the receipt for a final prospectus qualifying the distribution of the units, the Special Warrants were deemed to be exercised and the Company issued 16,895,491 units. Each unit is comprised of one common share of the Company and one-half of a share purchase warrant. Each warrant will entitle the holder to acquire one common share at an exercise price of $0.65 until May 21, 2023. Upon the conversion of the Special Warrants to units, no fair value was allocated to the attached purchase warrants.

The Company issued 2,964,667 common shares for the exercise of options for proceeds of $779,225 which resulted in a transfer from share-based compensation reserve of $586,185.

The Company issued 942,500 common shares for the exercise of warrants for proceeds of $47,125.

The Company issued 5,136,500 common shares for the exercise of performance securities for proceeds of $102,730 which resulted in a transfer from share-based compensation reserve of $1,541,310.

Year-ended June 30, 2020:

The Company issued 13,333,125 common shares at $0.075 per share upon conversion of convertible debenture as described in Note 10.

**Escrow Shares**

As at June 30, 2021, the Company has 1,800,000 (2020 – 2,400,000) common shares held in escrow.

The terms of the common shares held in escrow are as follows:
1) 15% of shares were released November 5, 2020;
2) 15% of shares were released May 5, 2021;
3) 15% of shares will be released November 5, 2021;
4) 15% of shares will be released May 5, 2022;
5) 15% of shares will be released November 5, 2022;
6) 15% of shares will be released May 5, 2023; and
7) 15% of shares will be released November 5, 2023.

(Expressed in Canadian dollars)

## 12. SHARE CAPITAL (CONTINUED)

### Stock options

On October 28, 2020, the Company has 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, provided that the number of common shares reserved for issuance will not exceed 15% of the issued and outstanding common shares. 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. The exercise price shall also be determined by the Committee and set out in the option certificate issued in respect of the option and shall not be less than the market value of the shares for a particular grant date.

During the year ended June 30, 2021, share-based compensation in the amount of $4,633,591 (2020 - $99,560) was recognized on the issuance and vesting of stock options to directors, officers and consultants.

The continuity of stock options is summarized below:

| | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|
| **Balance, June 30, 2019 and 2020** | **6,053,339** | **$0.10** |
| Granted | 11,192,336 | $0.42 |
| Exercised | (2,964,667) | $0.26 |
| **Balance, June 30, 2021** | **14,281,008** | **$0.31** |

The weighted average share price of options exercised during the year was $0.56.

(Expressed in Canadian dollars)

## 12. SHARE CAPITAL (CONTINUED)

### Stock options (CONTINUED)

The following table summarizes the stock options outstanding and exercisable as at June 30, 2021:

| NUMBER OF OPTIONS OUTSTANDING | NUMBER OF OPTIONS EXERCISABLE | EXERCISE PRICE | EXPIRY DATE |
|---|---|---|---|
| 39,999 | 39,999 | $0.53 | June 22, 2023 |
| 500,000 | 500,000 | $0.02 | December 30, 2024 |
| 850,000 | 690,625 | $0.02 | March 1, 2025 |
| 100,003 | 50,001 | $0.075 | May 30, 2022 |
| 33,333 | 33,333 | $0.075 | November 5, 2021 |
| 416,667 | 333,332 | $0.075 | June 16, 2025 |
| 3,657,006 | 2,971,314 | $0.075 | November 1, 2024 |
| 750,000 | 750,000 | $0.075 | October 28, 2025 |
| 200,000 | 66,666 | $0.30 | June 16, 2025 |
| 1,125,000 | 875,000 | $0.30 | October 28, 2025 |
| 215,000 | 40,000 | $0.73 | January 21, 2026 |
| 3,529,000 | 3,529,000 | $0.73 | January 21, 2023 |
| 2,865,000 | 2,865,000 | $0.30 | May 31, 2024 |
| **14,281,008** | **12,744,270** | | |

As at June 30, 2021, the weighted average remaining contractual life of all options outstanding was 2.99 years (2020 – 3.97).

The Company uses the Black-Scholes option pricing model to estimate the fair value of the options granted during 2021 with a weighted average fair value of $0.41 (2020 - $0.11).

The following weighted average assumptions were used:

| | **2021** | 2020 |
|---|---|---|
| Dividend yield | **Nil** | **Nil** |
| Forfeiture rate | **Nil** | **Nil** |
| Annualized volatility | **213%** | **100%** |
| Risk-free interest rate | **0.35%** | **0.36%** |
| Expected life | **2.98 years** | **4.7 years** |

### Warrants

The continuity of warrants is summarized below:

| | NUMBER OF WARRANTS | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|
| **Balance, June 30, 2019 and 2020** | **-** | **-** |
| Granted | 21,545,351 | $0.31 |
| Exercised | (942,500) | $0.05 |
| **Balance, June 30, 2021** | **20,602,851** | **$0.32** |

(Expressed in Canadian dollars)

## 12. SHARE CAPITAL (CONTINUED)

### Warrants (CONTINUED)

The following table summarizes the warrants outstanding and exercisable at June 30, 2021:

| OUTSTANDING | PRICE | EXPIRY DATE |
|---|---|---|
| 11,057,500 | $0.05 | October 28, 2022 |
| 464,992 | $0.50 | October 28, 2022 |
| 218,971 | $0.65 | January 5, 2023 |
| 413,649 | $0.65 | January 20, 2023 |
| 8,447,739 | $0.65 | March 11, 2023 |
| **20,602,851** | | |

As at June 30, 2021, the weighted average remaining contractual life of all warrants was 1.49 years (2020 – N/A).

In connection with the Convertible Debentures, eligible finders were issued an aggregate of 464,992 warrants (Note 11), exercisable for twenty-four months from the issue date at a price of $0.50 per common share, subject to acceleration rights of the Company if the volume weighted average closing price of the common shares is greater than $1.00 for a period of 10 consecutive trading days. The fair value of the warrants was determined to be $105,129, estimated using the Black-Scholes option pricing model using the following assumptions:

| | **2021** | 2020 |
|---|---|---|
| Dividend yield | **Nil** | N/A |
| Forfeiture rate | **Nil** | N/A |
| Annualized volatility | **184 %** | N/A |
| Risk-free interest rate | **0.16%** | N/A |
| Expected life | **2 years** | N/A |

In connection with the Special Warrants, eligible finders were issued an aggregate of 632,620 warrants, exercisable for twenty-four months from the issue date at a price of $0.65 per common share, subject to acceleration rights of the Company if the volume weighted average closing price of the common shares is greater than $1.00 for a period of 10 consecutive trading days. The fair value of the warrants was determined to be $408,844, estimated using the Black-Scholes option pricing model using the following assumptions:

| | **2021** | 2020 |
|---|---|---|
| Dividend yield | **Nil** | N/A |
| Forfeiture rate | **Nil** | N/A |
| Annualized volatility | **250 %** | N/A |
| Risk-free interest rate | **0.13%** | N/A |
| Expected life | **2 years** | N/A |

(Expressed in Canadian dollars)

## 12. SHARE CAPITAL (CONTINUED)

### Performance Securities

On October 16, 2020, the Company issued 12,000,000 Performance Securities due to a rights offering completed by Pure Manufacturing. Each of the Performance Securities was exercisable by the holder to purchase one common share of the Company at a price of $0.02 per share until October 16, 2025. The fair value of the Performance Securities was determined to be $3,566,429, estimated using the Black-Scholes option pricing model using the following assumptions:

| | **2021** | 2020 |
|---|---|---|
| Dividend yield | **Nil** | N/A |
| Forfeiture rate | **Nil** | N/A |
| Annualized volatility | **181 %** | N/A |
| Risk-free interest rate | **0.32%** | N/A |
| Expected life | **5 years** | N/A |

The continuity of performance securities is summarized below:

| | **NUMBER OF PERFORMANCE SECURITIES** | **WEIGHTED AVERAGE EXERCISE PRICE** |
|---|---|---|
| **Balance, June 30, 2019 and 2020** | **-** | **-** |
| Granted | 12,000,000 | **$0.02** |
| Exercised | (5,136,500) | $0.02 |
| **Balance, June 30, 2021** | **6,863,500** | **$0.02** |

## 13. 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 consolidated financial statements, related party transactions for the years ended June 30, 2021 and 2020 are as follows:

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

| | **2021** | 2020 |
|---|---|---|
| | **$** | $ |
| Consulting fees | **79,750** | 14,891 |
| Salaries | **-** | 22,204 |
| Share-based compensation | **3,982,309** | - |

(Expressed in Canadian dollars)

## 13. RELATED PARTY TRANSACTIONS (CONTINUED)

**Key Management Compensation** (CONTINUED)

b) Key management compensation

| | **2021** | 2020 |
|---|---|---|
| | **$** | $ |
| Management salaries and short-term benefits | **730,000** | 108,577 |
| Consulting fees | **134,000** | 14,891 |
| Share-based compensation | **1,349,540** | – |

As at June 30, 2021, the Company has an amount owing to the Chief Operating Officer of $200 (2020 - $200). Included in accounts payable and accrued liabilities is an amount owing to the Chief Financial Officer of $1,470 (2020 - $Nil), an amount owing to a legal firm affiliated with a director of the Company of $191,773 (2020 - $Nil) and an amount owing to a former director and shareholder amounting to $Nil (2020 – $18,161).

As at June 30, 2021, the Company has a loan receivable owing from the Chief Operating Officer of the Company in the amount of $401,208. The loan bears interest at 1% per annum and is due on demand.

## 14. 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%.

In April 2020, the lease agreement was amended to increase the size of the premises leased. Upon the additional space being made available for the Company's use in October 2020, the Company recognized $165,948 for a ROU asset and $165,949 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 year ended June 30, 2021, 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 the rate implicit in the lease of 15%.

During the year ended June 30, 2021, the Company entered into to lease agreement with a third party to lease extraction equipment. The Company recognized $628,343 for a ROU asset and $485,377 for a lease liability. The day one difference between the ROU asset and the lease liability pertains to prepayment of first year lease payment. The lease liability was measured using the incremental borrowing rate of 8%.

During the year ended June 30, 2021, the Company paid $55,905 towards the purchase of extraction equipment. The total purchase price is $223,620. The Company entered into a lease agreement with a third party to lease the remainder 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 $16,771 or the fair value of the equipment at that time. Upon delivery of the equipment and commencement of the lease, the Company recognized $234,686 for a ROU asset and $178,781 for a lease liability. This lease liability was measured using the rate implicit in the lease of 15%.

(Expressed in Canadian dollars)

## 14. RIGHT-OF-USE ASSET AND LEASE LIABILITY (CONTINUED)

The continuity of the ROU asset and lease liability for the years ended June 30, 2021 and 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 | | 165,949 | | 1,982,998 | | 2,148,947 |
| Amortization | | (134,945) | | (261,485) | | (396,430) |
| **As at June 30, 2021** | **$** | **551,987** | **$** | **1,721,513** | **$** | **2,273,500** |

| **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 | | 165,948 | | 1,242,027 | | 1,407,975 |
| Lease payments | | (158,400) | | (228,463) | | (386,863) |
| Lease interest | | 31,915 | | 89,565 | | 121,480 |
| Impact of foreign exchange | | - | | (13,460) | | (13,460) |
| **As at June 30, 2021** | **$** | **568,181** | **$** | **1,089,669** | **$** | **1,657,850** |
| Current portion | $ | 133,024 | $ | 212, 251 | $ | 345,275 |
| Long-term portion | $ | 435,157 | $ | 877,418 | $ | 1,312,575 |
| | **$** | **568,181** | **$** | **1,089,669** | **$** | **1,657,850** |

## 15. COMMITMENTS

The Company’s commitments under its leases for the next five fiscal years is as follows (Note 14):

| Year | | Amount |
|---|---|---|
| 2022 | $ | 573,976 |
| 2023 | | 575,576 |
| 2024 | | 420,353 |
| 2025 | | 263,950 |
| 2026 | | 123,950 |
| | $ | 1,957,805 |

(Expressed in Canadian dollars)

## 16. SEGMENTED INFORMATION

The Company has three operating segments, being the extraction and processing of cannabis and hemp, the development and commercialization of functional wellness products and psychedelic medicinal products, and its head office.

| | Cannabis and Hemp | Functional Wellness | Head Office | Total |
|---|---|---|---|---|
| Revenue | $ 99,854 | $ 2,259 | $ - | $ 102,113 |
| Cost of sales | 153,459 | 1,782 | - | 155,241 |
| Amortization | 686,601 | - | - | 686,601 |
| Share-based compensation | 78,153 | - | 8,121,867 | 8,200,020 |
| Gain on forfeiture of interest | 139,787 | - | - | 139,787 |
| Listing expense | - | - | 3,158,418 | 3,158,418 |
| Provision for loan receivable | $ 427,087 | $ - | $ - | $ 427,087 |
| **Segment assets** | $ 6,433,410 | $ 32,291 | $ 2,032,421 | $ 8,498,122 |
| **Segment liabilities** | $ 1,998,706 | $ 4,475 | $ 326,633 | $ 2,329,814 |
| **Capital Expenditures** | $ 801,210 | $ - | $ - | $ 801,210 |

The Company's long-term assets are located in Canada.

## 17. SUPPLEMENTAL CASH FLOW INFORMATION

| | **2021** | 2020 |
|---|---|---|
| Shares issued on conversion of debt | **$ 9,399,148** | $ 1,000,000 |
| Broker warrants | **513,973** | - |
| Right of use asset additions | **2.093,041** | - |
| Broker warrants finders' fee | **408,844** | - |
| Prepaid applied to lease | **7,695** | - |
| Deposit on lease | **55,905** | - |
| Property and equipment additions in accounts payable and accrued liabilities | **-** | 171,266 |
| Assigned loan receivable in loan payable | **-** | 390,087 |
| Interest paid | **$ -** | $ - |

## 18. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | **2021** | 2020 |
|---|---|---|
| Loss before income tax from continuing operations | **$ (20,693,242)** | $ (2,938,399) |
| Statutory tax rate | **27.00%** | 27.00% |
| Expected income recovery | **(5,587,000)** | (779,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | **33,000** | - |
| Permanent differences | **3,187,000** | 27,000 |
| Share issuance costs | **(136,000)** | - |
| Change in deferred tax assets not recognized | **2,503,000** | 752,000 |
| Total income tax expense (recovery) | **$ -** | $ - |

(Expressed in Canadian dollars)

## 18. INCOME TAXES (CONTINUED)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

| | | 2021 | Expiry Date Range | | 2020 | Expiry Date Range |
|---|---|---|---|---|---|---|
| **Temporary Differences** | | | | | | |
| Property and equipment | $ | 394,000 | No expiry date | $ | - | No expiry date |
| Share issue costs | | 412,000 | 2022 to 2025 | | - | - |
| Non-capital losses | $ | 11,149,000 | 2026 to 2037 | $ | 270,000 | 2023 to 2040 |

## 19. SUBSEQUENT EVENTS

On August 19, 2021, the Company's newly formed Michigan subsidiary, Pure Extracts USA Inc. ("Pure USA") entered into an agreement with Golden Harvests, LLC, a Michigan company, to form a joint venture. As part of the agreement, Pure USA agreed to contribute extraction equipment in exchange for a 50% interest in the joint venture. As at the date of this report, Pure USA has not yet received its membership interests in the joint venture which is pending approval from the Marijuana Regulatory Agency.
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Subsequent to the year ended June 30, 2021, the Company had the following equity transactions:

- 1,190,625 shares were issued pursuant to options exercised at $0.02 for gross proceeds of $23,812
- 776,167 shares were issued pursuant to options exercised at $0.075 for gross proceeds of $58,213
- 450,000 shares were issued pursuant to options exercised at $0.30 for gross proceeds of $135,000
- 1,910,000 shares were issued pursuant to warrants exercised at $0.05 for gross proceeds of $95,500
- 639,000 shares were issued pursuant to performance securities exercised at $0.02 for gross proceeds of $12,780