PURE EXTRACTS TECHNOLOGIES CORP.

INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

FOR THE SIX AND THREE MONTHS ENDED

DECEMBER 31, 2021 AND 2020

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED – PREPARED BY MANAGEMENT)

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PURE EXTRACTS TECHNOLOGIES CORP.
INTERIM CONSOLIDATED CONDENSED STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian dollars)

As at		**December 31, 2021**		June 30, 2021
ASSETS				
Current assets				
Cash	**$**	**281,741**	$	1,629,383
Prepaid expenses (Note 4)		**170,283**		248,529
Accounts receivable and other receivables		**258,515**		218,784
Inventory (Note 5)		**1,230,487**		720,192
Deferred costs		**31,440**		67,901
Due from related party (Note 12)		**331,208**		401,208
Total current assets		**2,303,674**		3,285,997
Long-term deposits		**167,875**		165,997
Property and equipment (Note 6)		**2,479,642**		2,772,628
Right-of-use asset (Note 13)		**2,017,702**		2,273,500
Total assets	**$**	**6,968,893**	$	8,498,122
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (Notes 7 and 12)	**$**	**913,283**	$	589,573
Due to related parties (Note 12)		**200**		200
Deferred revenue		**228,980**		82,191
Lease liability – short term (Note 13)		**371,087**		345,275
Total current liabilities		**1,513,550**		1,017,239
Lease liability – long term (Note 13)		**1,142,758**		1,312,575
Total liabilities		**2,656,308**		2,329,814
Shareholders' equity				
Share capital (Note 11)		**24,124,667**		23,283,105
Obligation to issue shares (Note 11)		**105,000**		-
Reserves (Note 11)		**6,323,327**		6,686,058
Deficit		**(26,240,409)**		(23,800,855)
Total shareholders’ equity		**4,312,585**		6,168,308
Total liabilities and shareholders’ equity	**$**	**6,968,893**	$	8,498,122

Nature of operations and going concern (Note 1)
Subsequent events (Note 16)

Approved and authorized for issuance by the Board of Directors on, March 1, 2022:

/s/ Dwight Duncan
Name, Director

/s/ Sean Bromley
Name, Director

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

PURE EXTRACTS TECHNOLOGIES CORP.
INTERIM CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited - Expressed in Canadian dollars)

	Three months ended December 31, **2021**	Three months ended December 31, 2020	Six months ended December 31, **2021**	Six months ended December 31, 2020
Revenue	**$ 394,134**	$ -	**$ 679,649**	$ -
Cost of goods sold (Note 5)	**234,277**	-	**487,407**	-
Gross Margin	**159,857**	-	**192,242**	-
Operating expenses				
Amortization (Notes 5, 6 and 13)	**185,448**	181,779	**395,236**	245,059
Advertising and promotion (Note 11)	**29,772**	1,554,005	**74,384**	1,713,535
Consulting (Note 12)	**172,793**	268,875	**343,729**	286,600
Insurance	**42,182**	6,647	**83,141**	11,634
Interest and bank charges (Notes 9, 10 and 13)	**39,001**	63,275	**77,621**	130,952
Inventory wastage (Note 5)	**(117,411)**	-	**86,193**	-
Licenses	**15,438**	-	**32,269**	23,000
Office and administrative	**74,817**	140,722	**173,510**	166,056
Office and equipment rental	**16,490**	12,610	**31,167**	33,834
Professional fees	**81,344**	107,689	**172,410**	234,252
Repairs and maintenance	**27,448**	1,601	**45,106**	1,761
Salaries and benefits (Note 12)	**430,897**	436,239	**815,026**	714,473
Share-based compensation (Notes 11 and 12)	**30,008**	4,730,180	**81,978**	4,808,333
Shareholder information	**20,804**	27,225	**61,471**	27,225
Supplies	**294**	28,799	**294**	30,358
Utilities	**5,149**	11,436	**15,574**	13,866
Transfer agent and regulatory fees	**32,037**	25,142	**33,696**	28,362
Travel and entertainment	**57,566**	-	**96,072**	17,208
Total operating expenses	**1,144,077**	7,615,586	**2,618,877**	8,486,508
Other income				
Gain on forfeiture of interest (Note 9 and 10)	**-**	139,787	**-**	139,787
Listing expense	**-**	(3,158,418)	**-**	(3,158,418)
Write-off of loan receivable and prepaids (Note 8)	**-**	(427,087)	**-**	(427,087)
Foreign exchange gain (loss)	**(159)**	3,379	**(12,919)**	7,880
Net loss and comprehensive loss for the period	**$ (984,379)**	$ (11,057,925)	**$ (2,439,554)**	$ (11,924,346)
Basic and diluted loss per share	**$ (0.01)**	$ (0.20)	$ **(0.02)**	$ (0.31)
Weighted average number of shares outstanding	**103,237,700**	54,424,266	**102,041,439**	38,328,633

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

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

	Share capital Number of shares		Share capital Amount		Obligation to issue shares		Reserves		Deficit		Total
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 debt, net finders' fee	55,621,026		9,128,671		-		-		-		9,128,671
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	2,450,000		1,272,486		-		(537,486)		-		735,000
Shares issued for exercise of warrants	400,000		20,000		-		-		-		20,000
Shares issued for exercise of performance securities	1,200,000		380,643		-		(356,643)		-		24,000
Shares issued for services	1,200,000		720,000		-				-		720,000
Share-based compensation	-		-		-		1,241,904		-		1,241,904
Share subscriptions received	-		-		631,290		-		-		631,290
Net loss and comprehensive loss for the period	-		-		-		-		(11,924,346)		(11,924,346)
Balance, December 31, 2020	75,950,537		14,020,524		631,290		4,118,893		(15,031,959)		3,738,748
Balance, June 30, 2021	97,839,695	$	23,283,105		-	$	6,686,058	$	(23,800,855)	$	6,168,308
Shares issued for exercise of options	2,576,167		474,870		-		(254,797)		-		220,073
Shares issued for exercise of warrants	3,280,000		164,000		-		-		-		164,000
Shares issued for exercise of performance securities	639,000		202,692		-		(189,912)		-		12,780
Share-based compensation	-		-		-		81,978		-		81,978
Share subscriptions received	-		-		105,000		-		-		105,000
Net loss and comprehensive loss for the period	-		-		-		-		(2,439,554)		(2,439,554)
Balance, December 31, 2021	**104,334,862**	**$**	**24,124,667**		**105,000**	**$**	**6,323,327**	**$**	**(26,240,409)**	**$**	**4,312,585**

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

PURE EXTRACTS TECHNOLOGIES CORP.
INTERIM CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian dollars)

	Six month period ended December 31,	
	2021	2020
OPERATING ACTIVITIES		
Net loss for the period	**(2,439,554)**	(11,924,346)
Non-cash items		
Amortization	**395,236**	245,059
Accrued interest	**-**	78,463
Share-based compensation	**81,978**	4,808,333
Shares issued for advertising services	**-**	720,000
Gain on forfeiture of interest	**-**	(139,787)
Write-off of loan receivable and prepaids	**-**	427,087
Listing expense	**-**	2,381,563
Foreign exchange	**12,144**	-
Changes in non-cash operating working capital:		
Prepaid expenses	**78,246**	(25,124)
Accounts receivable and other receivables	**(39,731)**	92,994
Inventory	**(334,512)**	(30,512)
Deposits	**(1,878)**	-
Deferred costs	**36,461**	-
Accounts payable and accrued liabilities	**322,755**	243,123
Due to related party	**-**	(18,161)
Deferred revenue	**146,789**	5,475
Net cash used in operating activities	**(1,742,066)**	(3,135,833)
INVESTING ACTIVITY		
Purchase of property and equipment	**(21,281)**	(651,000)
Cash received on acquisition of Big Sky Petroleum	**-**	10,433
Net cash used in investing activity	**(21,281)**	(640,567)
FINANCING ACTIVITIES		
Proceeds from convertible debentures	**-**	3,408,405
Proceeds from promissory note	**-**	-
Proceeds from related party loan receivable	**70,000**	-
Lease liability payments	**(156,149)**	(140,593)
Share subscriptions received	**105,000**	631,290
Security deposit paid on commencement of lease	**-**	(154,400)
Proceeds from the exercise of options, warrants, and performance securities	**396,854**	779,000
Net cash provided by financing activities	**415,705**	4,523,702
Change in cash	**(1,347,642)**	747,302
Cash, beginning of period	**1,629,383**	134,395
Cash, end of period	**281,741**	881,697

Supplemental cashflow information

	$	$
Property and equipment additions in accounts payable and accrued liabilities	954	-
Shares issued on conversion of debt	-	9,399,148
Broker warrants issued for convertible debt financing	-	105,129
Finder’s fee for convertible debt financing	-	270,447
Interest paid	74,606	-
Taxes paid	-	-

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Pure Extracts Technologies 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". 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 interim consolidated condensed 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.

Joint Ventures

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 third-party Michigan company, to form a joint venture. As part of the agreement, Pure USA agreed to contribute extraction and other equipment with a value of $625,000 USD and enter into a royalty-free licensing agreement in exchange for a 50% interest in the joint venture. As at the date of these approved interim consolidated condensed financial statements, Pure USA has not yet received its membership interests in the joint venture which is pending approval from the Marijuana Regulatory Agency and the extraction equipment has not yet been contributed.

On September 9, 2021, the Company's subsidiary Pure Mushrooms entered into an agreement with Psyence Biomed Corp., a third-party, to form a joint venture. As part of the agreement, each of Pure Mushrooms and Psyence Biomed Corp. subscribed for 500 common shares in the joint venture at a price of $1.00 per share and have agreed to advance a loan in the amount of $105,000, bearing interest at 1% per annum. As at the date of these approved interim consolidated condensed financial statements, Pure Mushrooms had not yet advanced the funds for the loan.

1. NATURE OF OPERATIONS AND GOING CONCERN (CONTINUED)

These interim consolidated condensed 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 six months ended December 31, 2021, the Company incurred a net loss of $2,439,554 (2020 - $11,924,346). As at December 31, 2021, the Company has working capital of $790,124 (June 30, 2021 – $2,268,758) and an accumulated deficit of $26,240,409 (June 30, 2021 - $23,800,855). 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 interim consolidated condensed 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 interim consolidated condensed 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 interim consolidated condensed 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 interim consolidated condensed financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and International Accounting Standard 34, Interim Financial Reporting. These financial statements do not include all disclosures as required for annual financial statements and should be read in conjunction with the annual financial statements of Pure Extracts Technologies Corp for the year ended June 30, 2021. As described in this Note 2, significant accounting policies have been consistently applied in the presentation of these interim consolidated condensed financial statements.

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

The interim consolidated condensed financial statements of the Company for the six month period ended December 31, 2021 were approved and authorized for issue by the Board of Directors on March 1, 2022.

Basis of consolidation

These interim consolidated condensed 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:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (CONTINUED)

SUBSIDIARIES	OWNERSHIP PERCENTAGE	JURISDICTION OF INCORPORATION
Pure Manufacturing	100%	British Columbia, Canada
Pure Mushrooms	100%	British Columbia, Canada
Pure USA	100%	Michigan, United States

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 interim consolidated condensed 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.

Right-of-use asset and lease liability

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

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

Impairment of long-lived assets

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgments and estimates (CONTINUED)

Property and equipment – useful lives

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

Impairment of receivables

The Company provides for doubtful debts by analyzing the historical default experience and current information available about a borrower's credit worthiness on an account by account basis. Uncertainty relates to the actual collectability of borrower balances that can vary from the Company's estimation. No loss allowance has been provided by the Company as at December 31, 2021 (June 30, 2021 - $427,087).

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.

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.

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.

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, accounts payable and accrued liabilities, and due to and from related parties as their carrying values approximate the fair values due to the relatively short-term maturity of these instruments. The lease liability is classified as level 3.

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt and equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The Company has cash at December 31, 2021 in the amount of $281,741 (June 30, 2021 - $1,629,383), in order to meet short-term liabilities of $1,513,550 (June 30, 2021 - $1,017,239). 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 December 31, 2021. The Company's undiscounted cash flow commitments on the leases are disclosed in Note 14.

Credit risk

Credit risk is the risk of potential loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and trade receivables. The Company limits exposure to credit risk relating to cash through maintaining its cash with high-credit quality financial institutions. The Company's cash is held with a major Canadian-based financial institution. The Company limits its credit risk exposure relating to trade receivables by monitoring the level of accounts receivable attributable to each customer, the length of time taken for amounts to be settled and by maintaining reserves for potential credit losses. 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. The carrying amount of financial assets represents the maximum credit exposure.

As at December 31, 2021, 70% of accounts receivable and other receivables relates to a single customer and of that, 6% is outstanding for less than 30 days, 29% is outstanding for 31 to 60 days, 31% is outstanding for 61 to 90 days, and the remaining 34% is outstanding for more than 91 days. The Company has assessed its expected credit and determined it to be nominal due to the nature and term of the receivables.

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.

(Unaudited - Expressed in Canadian dollars)

3. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (CONTINUED)

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, 2021.

4. PREPAID EXPENSES

	December 31, 2021	June 30, 2021
Prepaid expenses	$ 97,953	$ 158,200
Deposits on inventory	72,330	90,329
	$ 170,283	$ 248,529

5. INVENTORY

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

	December 31, 2021	June 30, 2021
Raw materials	$ 64,265	$ 80,821
Work in progress	1,166,222	639,371
	$ 1,230,487	$ 720,192

Included in work in progress inventory is capitalized amortization of $175,783 (June 30, 2021 - $104,254).

During the six months ended December 31, 2021, $301,980 of inventory was expensed through cost of goods sold (2020 - $Nil) and $86,193 of inventory was expensed through inventory wastage (2020 - $Nil).

(Unaudited - Expressed in Canadian dollars)

6. PROPERTY AND EQUPMENT

	Leasehold Improvements	Manufacturing Equipment	Security Equipment	Extraction Equipment	Office furniture	Testing equipment	Packaging equipment	Total
Cost								
As at June 30, 2020	$ 1,588,390	$ 617,774	$ 154,679	$ 5,000	$ -	$ -	$ -	$2,365,843
Additions	178,470	95,070	10,503	478,116	6,082	32,969	-	801,210
As at June 30, 2021	1,766,860	712,844	165,182	483,116	6,082	32,969	-	3,167,053
Additions	17,144	-	2,165	-	2,926	-	5,235	27,470
Disposals	-	-	-	-	-	-	(5,235)	(5,235)
As at December 31, 2021	**$ 1,784,004**	**$ 712,844**	**$ 167,347**	**$ 483,116**	**$ 9,008**	**$ 32,969**	**$ -**	**$3,189,288**
Accumulated 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
Amortization	178,329	71,284	16,590	48,312	706	-	87	315,308
Disposal	-	-	-	-	-	-	(87)	(87)
As at December 31, 2021	**$ 409,414**	**$ 163,726**	**$ 38,405**	**$ 96,787**	**$ 1,314**	**$ -**	**$ -**	**$ 709,646**
Net Book Value								
As at June 30, 2021	$ 1,535,775	$ 620,402	$ 143,367	$ 434,641	$ 5,474	$ 32,969	$ -	$2,772,628
As at December 30, 2021	**$ 1,374,590**	**$ 549,118**	**$ 128,942**	**$ 386,329**	**$ 7,695**	**$ 32,969**	**$ -**	**$2,479,642**

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021	June 30, 2021
Accounts payable	**$ 552,699**	$ 423,019
Accrued professional fees	**360,584**	166,554
	$ 913,283	$ 589,573

8. 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 10), entered into letter of agreement to assist Pure Manufacturing in providing financing and facilitating the Acquisition. 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.

(Unaudited - Expressed in Canadian dollars)

8. LOAN RECEIVABLE AND LOAN PAYABLE (CONTINUED)

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 had been called. Due to the uncertainty surrounding the collectability of the loan receivable and deposit, the loan and deposit were 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.

9. 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 completion of an RTO 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 at June 30, 2020	**$**	**1,944,199**
Advances		3,369,827
Interest expense		58,270
Converted to shares		(5,289,077)
Interest forgiven		(83,219)
Balance at June 30, 2021 and December 30, 2021	**$**	**-**

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.

(Unaudited - Expressed in Canadian dollars)

10. 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 completion of an RTO 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 completion of an RTO 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

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. 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.

a) 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 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.

Reconciliation of the convertible debentures are as follows:

Balance at June 30, 2020	**$**	**1,136,375**
Advances		1,309,055
Interest expense		20,193
Conversion into common shares		(2,409,055)
Interest forgiven		(56,568)
Balance at June 30, 2021 and December 31, 2021	**$**	**-**

11. 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

<u>Six months ended December 31, 2021:</u>

During the six months ended December 31, 2021, the Company issued 2,576,167 common shares pursuant to options exercised for proceeds of $220,073 which resulted in a transfer from share-based compensation reserve of $254,797.

During the six months ended December 31, 2021, the Company issued 3,280,000 common shares pursuant to the exercise of warrants for proceeds of $164,000.

During the six months ended December 31, 2021, the Company issued 639,000 common shares pursuant to the exercise of performance securities for proceeds of $12,780 which resulted in a transfer from share-based compensation reserve of $189,912.

During the six months ended December 31, 2021, the Company received $105,000 pursuant to warrant exercises. The common shares relating to the warrants exercises were issued subsequent to period-end.

<u>Six months ended December 31, 2020:</u>

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 10).

On October 28, 2020, the Company issued 55,621,043 common shares for the settlement of $9,128,671 in debt pursuant to the RTO (Notes 8, 9 and 10).

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.

During the six months ended December 31, 2020, the Company issued 2,450,000 common shares for the exercise of options for proceeds of $735,000 which resulted in a transfer from share-based compensation reserve of $537,486.

During the six months ended December 31, 2020, the Company issued 400,000 common shares for the exercise of warrants for proceeds of $20,000.

11. SHARE CAPITAL (CONTINUED)

Issued and outstanding (CONTINUED)

During the six months ended December 31, 2020, the Company issued 1,200,000 common shares for the exercise of performance securities for proceeds of $24,000 which resulted in a transfer from share-based compensation reserve of $356,643.

Escrow Shares

As at December 31, 2021, the Company has 1,440,000 (June 30, 2021 – 1,800,000) common shares held in escrow.

The terms of the common shares held in escrow are as follows:
1) 10% 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.

Stock options

On October 28, 2020, the Company finalized its Stock Option Plan (the "Plan") which provides that the Committee or Board of Directors ("the Committee") of the Company may from time to time, in its discretion, grant to directors, officers, employees and technical consultants and contractors to the Company, non-transferable options to purchase common shares of the Company.

All options granted pursuant to the Plan shall be subject to the terms and conditions of the Plan. The number of shares which will be available for purchase pursuant to an option will be equal to the number of shares as determined by the Committee from time to time, 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 six month period ended December 31, 2021, share-based compensation in the amount of $81,978 (2020 - $1,241,904) was recognized on the issuance and vesting of stock options to directors, officers and consultants.

(Unaudited - Expressed in Canadian dollars)

11. SHARE CAPITAL (CONTINUED)

Stock options (CONTINUED)

The continuity of stock options is summarized below:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, June 30, 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**
Exercised	(2,576,167)	$0.09
Expired	(33,333)	$0.08
Balance, December 31, 2021	**11,671,508**	**$0.34**

The weighted average share price of options exercised during the period was $0.37.

The following table summarizes the stock options outstanding and exercisable as at December 31, 2021:

NUMBER OF OPTIONS OUTSTANDING	NUMBER OF OPTIONS EXERCISABLE	EXERCISE PRICE	EXPIRY DATE
39,999	39,999	$0.53	June 22, 2023
100,003	75,002	$0.075	May 30, 2022
250,001	250,001	$0.075	June 16, 2025
3,047,505	3,047,505	$0.075	November 1, 2024
750,000	750,000	$0.075	October 28, 2025
200,000	133,334	$0.30	June 16, 2025
1,100,000	1,100,000	$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
2,440,000	2,440,000	$0.30	May 31, 2024
11,671,508	**11,404,841**		

As at December 31, 2021, the weighted average remaining contractual life of all options outstanding was 2.33 years (June 30, 2021 – 2.99).

(Unaudited - Expressed in Canadian dollars)

11. SHARE CAPITAL (CONTINUED)

Warrants

The continuity of warrants is summarized below:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, June 30, 2020	**-**	**-**
Granted	21,545,351	$0.31
Exercised	(942,500)	$0.05
Balance, June 30, 2021	**20,602,851**	**$0.32**
Granted	-	-
Exercised	(3,280,000)	$0.05
Balance, December 30, 2021	**17,322,851**	**$0.35**

The weighted average share price of warrants exercised during the period was $0.05

The following table summarizes the warrants outstanding and exercisable at December 31, 2021:

OUTSTANDING	PRICE	EXPIRY DATE
7,777,500	$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
17,322,851		

As at December 31, 2021, the weighted average remaining contractual life of all warrants was 1.01 years (June 30, 2021 – 1.49 years).

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.

The continuity of performance securities is summarized below:

	NUMBER OF PERFORMANCE SECURITIES	WEIGHTED AVERAGE EXERCISE PRICE
Balance, June 30, 2020	**-**	**-**
Granted	12,000,000	$0.02
Exercised	(5,136,500)	$0.02
Balance, June 30, 2021	**6,863,500**	**$0.02**
Exercised	(639,000)	$0.02
Balance, December 31, 2021	**6,224,500**	**$0.02**

(Unaudited - Expressed in Canadian dollars)

12. 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 fair value, 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 interim consolidated condensed financial statements, related party transactions for the six months ended December 31, 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*

	Six months ended December 31, 2021	Six months ended December 31, 2020
	$	$
Share-based compensation	**-**	3,566,429

b) *Key management compensation*

	Six months ended December 31, 2021	Six months ended December 31, 2020
	$	$
Management salaries and short-term benefits	**310,000**	310,000
Consulting fees	**83,558**	59,750
Share-based compensation	**18,409**	374,796

As at December 31, 2021, the Company has an amount owing to the Chief Operating Officer of $200 (June 30, 2021 - $200). Included in accounts payable and accrued liabilities is an amount owing to the Chief Financial Officer of $11,573 (June 30, 2021 - $1,470), an amount owing to a Director of the Company of $5,520 (June 30, 2021 - $1,535), and an amount owing to a legal firm affiliated with a director of the Company of $322,195 (June 30, 2021 - $190,239).

As at December 31, 2021, the Company has a loan receivable owing from the Chief Operating Officer of the Company in the amount of $331,208. The loan bears interest at 1% per annum and is due on demand.

13. 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%.

(Unaudited - Expressed in Canadian dollars)

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

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%.

The continuity of the ROU asset and lease liability for the six months ended December 30, 2021 and the year ended June 30, 2021 is as follows:

Right-of-use asset		Office		Equipment		Total
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**
Amortization		(71,998)		(183,800)		(255,798)
As at December 31, 2021	**$**	**479,989**	**$**	**1,537,713**	**$**	**2,017,702**

Lease liability						
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**
Lease payments		(79,200)		(151,555)		(230,755)
Lease interest		13,517		61,089		74,606
Impact of foreign exchange		-		12,144		12,144
As at December 31, 2021	**$**	**502,498**	**$**	**1,011,347**	**$**	**1,513,845**
Current portion	$	136,383	$	234,704	$	371,087
Long-term portion	$	366,115	$	776,643	$	1,142,758
	$	**502,498**	**$**	**1,011,347**	**$**	**1,513,845**

(Unaudited - Expressed in Canadian dollars)

14. COMMITMENTS

The Company's commitments under its leases for the next five fiscal years is as follows (Note 13):

Year		Amount
2022	$	351,986
2023		578,599
2024		423,376
2025		266,973
2026		126,973
	$	1,747,907

15. 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	$	675,065	$	4,584	$	-	$	679,649
Cost of sales		485,663		1,744		-		487,407
Operating expenses		1,714,192		60,860		843,825		2,618,877
Segment assets	$	6,377,779	$	47,682	$	543,432	$	6,968,893
Segment liabilities	$	2,106,814	$	21,573	$	527,921	$	2,656,308
Capital expenditures	$	22,235	$	-	$	-	$	22,235

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

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2021, the Company had the following equity transactions:

- 1,530,000 shares were issued pursuant to performance securities exercised at $0.02 for gross proceeds of $30,600.
- 120,000 shares were issued pursuant to warrants exercised at $0.05 for gross proceeds of $6,000.