

**PURE EXTRACTS TECHNOLOGIES CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

**(EXPRESSED IN CANADIAN DOLLARS)**

## INTRODUCTION

This is the Management's Discussion and Analysis ("MD&A") for Pure Extracts Technologies Corp (the "Company") and has been prepared based on information known to management as of October 28, 2022. This MD&A is intended to help the reader understand the consolidated Financial Statements of the Company.

The following information should be read in conjunction with the consolidated Financial Statements for the years ended June 30, 2022 and 2021 ("Financial Statements") and the related notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A provides a review of the performance of the Company for the year ended June 30, 2022.

Management is responsible for the preparation and integrity of the Financial Statements, including the maintenance of appropriate information systems, procedures and internal controls. Management also ensures that information used internally or disclosed externally, including the Financial Statements and MD&A, is complete and reliable.

All currency amounts are expressed in Canadian (CDN) dollars, which is the Company's functional currency, unless otherwise noted.

## FORWARD LOOKING STATEMENTS

Certain sections of this MD&A provide, or may appear to provide, a forward-looking orientation with respect to the Company's activities and its future financial results. Consequently, certain statements contained in this MD&A constitute express or implied forward-looking statements. Terms including, but not limited to, "anticipate", "estimate", "believe" and "expect" may identify forward-looking statements. Forward-looking statements, while they are based on the current knowledge and assumptions of the Company's management, are subject to risks and uncertainties that could cause or contribute to the actual results being materially different than those expressed or implied. Readers are cautioned not to place undue reliance on any forward-looking statement that may be in this MD&A.

The following forward-looking statements have been made in this MD&A:

- Future budgets and how long the Company expect its working capital to last; and
- Management expectations of future activities and results.

In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) the Company obtaining the necessary regulatory approvals; (ii) that regulatory requirements will be maintained; (iii) general business and economic conditions; (iv) the Company's ability to successfully execute its plans and intentions; (v) the availability of financing on reasonable terms; (vi) the Company's ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered by the Company's competitors; (ix) the maintenance of the Company's current good relationships with its suppliers, service providers and other third parties; (x) financial results, future financial position

and expected growth of cash flows; (xi) business strategy, including budgets, projected costs, projected capital expenditures, taxes, plans, objectives, potential synergies and industry trends; (xii) results of research and development; and (xiii) the effectiveness of the Company's products compared to its competitors' products. Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Company cannot assure that actual results will be consistent with these forward-looking statements. Given these risks, uncertainties and assumptions, investors should not place undue reliance on these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under "Risk and Uncertainties," below.

This MD&A also contains financial outlook information ("FOFI") regarding the Company's prospective revenue, which is subject to the same assumptions, risk factors, limitations and qualifications as set forth above and under the heading "Risks and Uncertainties". FOFI was made as of the date of this MD&A and is provided for the purpose of describing anticipated changes in revenue generation, and is not an estimate of profitability or any other measure of financial performance. In particular, revenue estimates do not take into account the cost of such estimated revenue, including the cost of goods and the cost of sales. In addition, and for greater certainty, revenue estimates do not take into account the operating costs of the Company. The Company disclaims any intention or obligation to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. FOFI contained in this MD&A should not be used for purposes other than for which it is disclosed herein. See "Risk and Uncertainties," below.

### **ADDITIONAL INFORMATION**

Additional information relevant to the Company and the Company's activities can be found on the Company's website at <https://pureextractscorp.com>.

# PURE EXTRACTS TECHNOLOGIES CORP.

## 1. Background

Pure Extracts Technologies Corp. (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 CSE under the symbol “PULL”. On January 27, 2021, Pure Mushrooms Corp. was incorporated under the Canada Business Corporations Act and became a 100% wholly owned subsidiary of the Company.

The Company holds a Health Canada standard processing licence under the Cannabis Act and related regulations. Pure has a fully built carbon dioxide extraction facility built to European Union GMP standards. Pure intends to undertake the business of the extraction and processing of cannabis and hemp as a third-party service to licensed producers 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.

The Company’s wholly owned subsidiary, Pure Mushrooms Corp. (“Pure Mushrooms”), has established a capital efficient e-Commerce portal on the Amazon platform for direct-to-consumer sales of functional mushroom wellness products. The portal was expanded to be available to Canadian customers in August 2021.

Two SKUs, created for Pure Mushrooms by a Vancouver co-packer, are currently available for sale: Reishi and Maitake. A Natural Product Number (NPN) for each of the Company’s Reishi and Lion’s Mane Class 1 products has been received from the Natural Health Products Directorate (NHPD) and submissions are underway for the Company’s Maitake and blended products.

A Natural Health Product (NHP) Site Licence application was completed in Q1 2022 to allow for onsite production at the Company’s Pemberton facility, should that be deemed desirable by the Company, and permission was granted to commence construction during the year.

On March 3, 2021 a Dealer’s Licence application was submitted to Health Canada with regard to controlled substances. Once granted, Pure Mushrooms would be permitted to cultivate and/or purchase psychedelic mushrooms and extract and sell compounds such as psilocybin.

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. During the year ended June 2022, the Company decided to terminate the pending joint venture, the Company had not yet received its membership interests in the joint venture and had not contributed the extraction equipment prior to terminating the pending joint venture.

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

## PURE EXTRACTS TECHNOLOGIES CORP.

\$105,000, bearing interest at 1% per annum. During the year ended June 2022, the Company decided to terminate the pending joint venture, the Company had not yet advanced funds for the loan at the time of termination of the pending joint venture.

### **2. Reverse Takeover Transaction**

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 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.

Pure Manufacturing (formerly Pure Extract Technologies Inc.) was incorporated on May 2, 2018 under the laws of the province of British Columbia. The principal and registered office of the Company is at 7341 Industrial Way, Pemberton, British Columbia, V0N 2K0.

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.

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, 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.

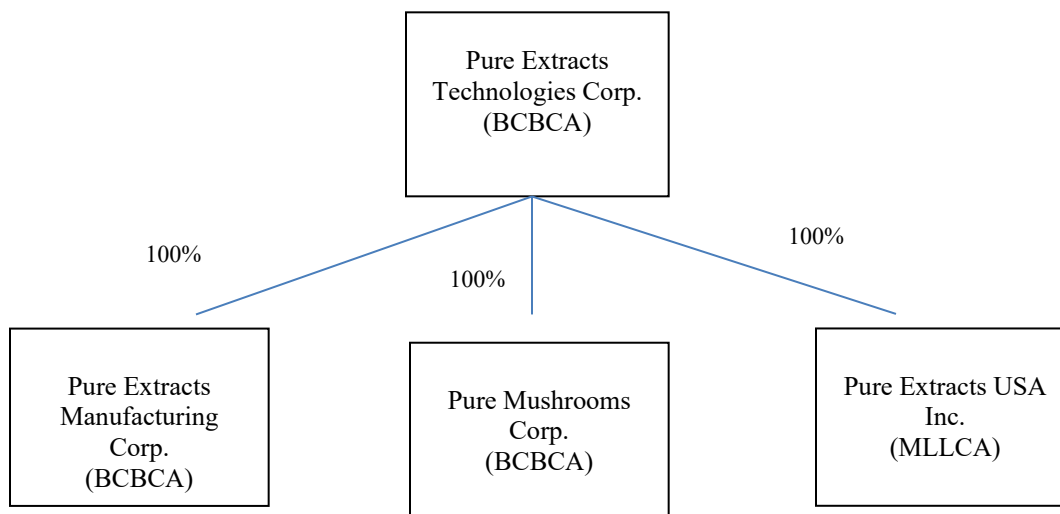
In accordance with IFRS 2, the fair value of the share issuance was determined to be \$0.30 per common share, based on the estimated fair value at the acquisition date.

# PURE EXTRACTS TECHNOLOGIES CORP.

A breakdown of the listing expense is as follows:

<b>Consideration:</b>	
Fair value of shares given up by Pure Manufacturing (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
<b>Total consideration</b>	<b>2,900,708</b>
<b>Fair value of net identifiable assets of the Company:</b>	
Cash	10,433
Accounts receivable and other receivables	1,188
Accounts payable and accrued liabilities	(269,331)
<b>Total net assets</b>	<b>(257,710)</b>
<b>Listing expense</b>	<b>\$ 3,158,418</b>

The following chart illustrates the intercorporate relationships that exist as of the date of the MD&A:



### **3. Risks and Uncertainties**

#### *COVID-19*

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and

## PURE EXTRACTS TECHNOLOGIES CORP.

weakness. As at the date of this document, 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 our 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.

### *Foreign Currency Rate Risk*

The Company's financing has been in Canadian dollars. At this time, the Company is not affected by changes in exchange rates between the Canadian dollar and US dollar ("USD"), since the Company does not have any significant USD monetary assets or liabilities and did not transact in USD.

Going forward, the Company's operating costs could be in USD. As a result, fluctuations in the USD against the Canadian dollar could result in unanticipated fluctuations in the Company's financial results. The Company does not manage its exposure to fluctuations in the USD against the Canadian dollar.

### *Additional Funding Requirements*

The Company has no sources of operating income at present.

The Company's ability to continue as a going concern is dependent upon its ability to raise funds primarily through the issuance of shares or obtain alternative financing, in which it has been successful in the past but there can be no assurance that additional debt or equity financing will be available on terms acceptable to the Company.

### *Reliance on Key Personnel*

The Company's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Company. The Company does not have key person insurance in effect for management. The contributions of these individuals to the Company's immediate operations are likely to be of central importance. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the Company's management.

### *Conflicts of Interest*

Certain of the Company's directors are also directors of other companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the British Columbia Business Corporations Act ("BCBCA").

### *Regulatory Risks*

The business and activities of the Company will be heavily regulated in all jurisdictions where it will carry on business of the extraction and processing of cannabis and hemp as a third-party service to licensed producers 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. The proposed activities of the Company will be subject to various laws, regulations and guidelines by governmental authorities, including, but not limited to, Health Canada and Canada Revenue Agency. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the activities of the Company, including the power to limit or restrict business activities as well as impose additional disclosure requirements on the Company's products and services. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products and/or provision of its services. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products and services, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

### *Regulatory Approvals, Permits and Licenses*

Any licenses the Company or its subsidiaries have obtained or will obtain in Canada and/or abroad are expected to be subject to ongoing compliance and reporting requirements. Although the Company believes it and its subsidiaries will meet the requirements for their applications and future renewals for their licenses, there can be no guarantee that government bodies will award or renew any applicable licenses or, if renewed, that such licenses will be renewed on the same or similar terms or that regulatory authorities will not revoke any licenses. Failure by the Company or any of its subsidiaries to comply with the requirements of their licenses or any failure to maintain such licenses would have a material adverse impact on the business, financial condition and operating results of the Company. Should any jurisdiction in which the Company considers a license important not grant, extend or renew such license or should it renew such license on different terms, or should it decide to grant more than the anticipated number of licenses to other businesses, the business, financial condition and results of the operation of the Company could be materially adversely affected.

Government licenses are currently, and in the future may be, required in connection with the Company's and its subsidiaries' operations, in addition to other unknown permits and approvals which may be required. To the extent such permits and approvals are required and not obtained, for example, the Cannabis Act research license and hemp production license that have been applied for but not yet obtained, the Company and its subsidiaries may be prevented from operating and/or expanding their business, which could have a material adverse effect on the Company's business, financial condition and results of operations.



*Changes in Laws, Regulations and Guidelines*

The Company's operations will be subject to various laws, regulations, guidelines and licensing requirements both in Canada and potentially abroad. The Company is expected to be in compliance with all such laws, any changes to such laws, regulations, guidelines and policies due to matters beyond the control of the Company could have a material adverse effect on the Company's business, results of operations and financial condition. In particular, any amendment to or replacement of the Cannabis Act, may cause adverse effects to the Company's operations.

In addition, the industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the Company's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or the Company's operations uneconomic.

*Factors related to the Company's Facilities which may prevent realization of business objectives*

Any adverse changes affecting the development or construction of a facility and commencement of analytical and research services could have a material and adverse effect on the Company's business, financial condition and prospects. There is a risk that these changes or developments could adversely affect the Company's facilities by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

- (a) delays in obtaining, or conditions imposed by, regulatory approvals;
- (b) plant design errors;
- (c) environmental pollution;
- (d) non-performance by third party contractors;
- (e) increases in materials or labour costs;
- (f) construction performance falling below expected levels of output or efficiency;
- (g) breakdown, aging or failure of equipment or processes;
- (h) contractor or operator errors;
- (i) labour disputes, disruptions or declines in productivity;
- (j) inability to attract sufficient numbers of qualified workers;
- (k) disruption in the supply of energy and utilities; or
- (l) major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

## PURE EXTRACTS TECHNOLOGIES CORP.

### *Environmental Risk and Regulation*

The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates or intends to operate. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are currently, and may in the future, be required in connection with the Company's operations.

### *The Canadian Medical and Recreational Cannabis Markets are Relatively New and these Markets may not Continue or Grow as Anticipated*

As an anticipated license holder under the Cannabis Act, the Company will be operating its business in a relatively new industry and market. In addition to being subject to general business risks, the Company must continue to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance and compliance with regulations. In addition, there is no assurance that the industry and market will continue to exist and grow as currently estimated or anticipated or function and evolve in the manner consistent with management's expectations and assumptions. Any event or circumstance that adversely affects the cannabis industry and market could have a material adverse effect on the Company's business, financial conditions and results of operations.

### *Limited Operating History*

Pure Extracts Manufacturing Corp. which is the continuing operations of the Company, was incorporated and began carrying on business in May 2018. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

### *History of Losses*

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, it will not be profitable.

## PURE EXTRACTS TECHNOLOGIES CORP.

### *Reliance on Management*

Another risk associated with the production and sale of cannabis is the loss of important staff members. The Company is currently in good standing with all high-level employees and believes that with well managed practices it will remain in good standing. The success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

In addition, the Company's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them.

### *Insurance and Uninsured Risks*

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company maintains and intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

### *Dependence on Suppliers and Skilled Labour*

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. This could have an adverse effect on the financial results of the Company.

### *Difficulty to Forecast*

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

### *Additional Financing*

There is no guarantee that the Company will be able to execute on its business strategy. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business strategy or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

### *Management of Growth*

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

### *Internal Controls*

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's Financial Statements and materially adversely affect the fair value of the common shares.

### *Litigation*

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the common shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant resources of the Company.

## **Risks Related to the Cannabis Industry**

*The Company may not be able to develop its brands, products and services, which could prevent it from ever becoming profitable*

If the Company cannot successfully develop, manufacture, distribute and provide its brands, products and services (as applicable) or if the Company experiences difficulties in the development process, such as capacity constraints, quality control problems or other disruptions, the Company may not be able to develop successful brands, market-ready commercial products at acceptable costs, or provide sufficient services, which would adversely affect the Company's ability to effectively enter the market. A failure by the Company to achieve a low-cost structure through economies of scale or improvements in its manufacturing processes would have a material adverse effect on the Company's commercialization plans and the Company's business, prospects, results of operations and financial condition.

*The Company's directors, officers, employees and investors may be subject to entry bans into the United States*

Cannabis is illegal under United States (U.S.) federal law. Individuals employed at or investing in cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with cannabis businesses. Entry to the U.S. is granted at the sole discretion of Customs and Border Protection ("CBP") officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. The government of Canada has started warning travelers that previous use of cannabis, or any substance prohibited by U.S. federal laws, could result in denial of entry to the U.S. Business or financial involvement in the cannabis industry in Canada or in the U.S. could also be reason enough for CBP officers to deny entry. On September 21, 2018, CBP released a statement outlining its position with respect to enforcement of the laws of the U.S. It stated that Canada's legalization of cannabis will not change CBP enforcement of U.S. laws regarding controlled substances and because cannabis continues to be a controlled substance under U.S. law, working in or facilitating the proliferation of the cannabis industry in U.S. states or Canada may affect admissibility to the U.S. On October 9, 2018, CBP released an additional statement regarding the admissibility of Canadian citizens working in the legal cannabis industry. CBP stated that a Canadian citizen working in or facilitating the proliferation of the legal cannabis industry in Canada coming into the U.S. for reasons unrelated to the cannabis industry will generally be admissible to the U.S.; however, if such person is found to be coming into the U.S. for reasons related to the cannabis industry, such person may be deemed inadmissible. Employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in the U.S. or Canada (such as the Company), who are not U.S. citizens, face the risk of being barred from entry into the U.S. for life.

If any of the Company's directors, officers and employees are determined to be inadmissible to enter the United States, this could have a negative impact on the Company's ability to operate in the U.S. In addition, the perception that involvement in the cannabis industry could lead to inadmissibility to the U.S. could make it more difficult for the Company to continue to retain and engage qualified directors, officers and employees in the future.

### *Product Liability*

If licensed as a distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Company's products would involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

### *Product Recalls*

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

### *Competition*

There is potential for the Company to face intense competition from other companies, some of which have longer operating histories and more financial resources, industry, manufacturing and marketing experience than the Company. Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger and better-financed competitors with

## PURE EXTRACTS TECHNOLOGIES CORP.

geographic and other structural advantages could materially and adversely affect the proposed business, financial condition and results of operations of the Company. To date, the application process to secure a license under the Cannabis Act has remained rigorous and highly competitive. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. The current number of licenses granted and the rigorous regulatory landscape could hinder the Company's ability to secure a license, thereby having a negative impact on the operations of the Company.

If the number of users of medical and/or recreational cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of the Company.

### *Client Acquisition and Retention*

The Company's success will depend to a substantial extent on the willingness of new customers to try or migrate to its service and/or products. If customers do not perceive the benefits of the Company's products and/or services, then the market for these products and/or services may not develop at all, or it may develop more slowly than expected, either of which would significantly adversely affect operating results. In addition, as a new company in this competitive market, the Company has limited insight into trends that may develop and affect its business. The Company may make errors in predicting and reacting to relevant economic and currency-related trends, which could harm its business.

There are many factors which could impact the Company's ability to attract and retain customers, including but not limited to, the Company's ability to provide desirable and effective products and/or services, the Company's ability to successfully implement a customer-acquisition plan, continued growth in the number of medical and recreational cannabis users and the number of competitors providing similar products and/or services.

### *Transportation Risks*

Due to the perishable nature of its proposed products, the Company will depend on fast and efficient third-party transportation services to distribute its product. Any prolonged disruption of third-party transportation services could have an adverse effect on the financial condition and results of operations of the Company.

## **4. Selected Annual Information**

<b>Fiscal year ended</b>	<b>June 30, 2022</b>	June 30, 2021	June 30, 2020
	\$	\$	\$
Revenue	<b>1,228,622</b>	102,113	-

PURE EXTRACTS TECHNOLOGIES CORP.

Net loss	<b>(5,240,058)</b>	(20,693,242)	(2,938,399)
Basic and diluted loss per share	<b>(0.05)</b>	(0.32)	(0.52)
Total assets	<b>6,321,676</b>	8,498,122	4,428,677
Long term financial liabilities	<b>681,501</b>	1,312,575	1,310,459

**5. Material Financial and Operations Information**

**(a) Review of Operations and Financial Results**

*For the three months ended June 30, 2022 compared to the three months ended June 30, 2021*

During the three months ended June 30, 2022, the Company had a net loss and comprehensive loss of \$1,256,906 (2021 – \$2,450,673) or \$0.01 loss per share (2021 – \$0.03), a decrease of \$1,193,767.

During the three months ended June 30, 2022, the Company earned revenues of \$367,805 (2021 - \$87,713) for the sale of distillate and finished goods such as vapes and edibles as well as services provided for the processing of distillate. The increase in sales is due to the Company being in the early stages of operations in the comparable period.

During the three months ended June 30, 2022, the Company incurred \$1,431,476 in operating expenses (2021 – \$2,425,285), a decrease of \$993,809. This decrease was mainly due to the following:

- The Company recorded \$10,488 (2021 – \$783,348) in stock-based compensation during the period to recognize expenses related to the vesting of options granted during previous periods. In the comparable period, stock-based compensation included amounts recognized for the vesting of both options and performance securities granted in the period.
- The Company incurred \$2,216 (2021 - \$215,519) in advertising and promotion expenses. Expenses in the comparable period relate to the Company's expenses for website development, branding and public relations, such expenses were not required in the current period as the website is already fully developed.
- The Company recognized \$157,592 (2021 - \$194,867) in amortization expense during the three months ended June 30, 2022 on its right of use assets which consist of a building lease entered into during the fourth quarter of 2020 and multiple equipment leases entered into during the year ended June 30, 2021.
- The Company incurred \$134,641 (2021 - \$354,987) in consulting fees during the three months ended June 30, 2022. Consulting fees in the comparable period are mostly attributed to general business development as the Company was still in the start-up phase, advisory services on product design and cannabis machinery, and consulting related to capital markets. Consulting fees in the current period are mostly related to ongoing advisory services.
- The Company incurred \$7,500 (2021 - \$46,189) in shareholder information and transfer agent and regulatory fees. Expenses in the comparable period were the result of additional regulatory requirements due to the Company going public, whereas expenses in the current period were for ongoing regulatory requirements.



## PURE EXTRACTS TECHNOLOGIES CORP.

The decrease in spending discussed above were offset by the following:

- The Company incurred \$100,230 (2021 - \$38,713) in insurance expenses. The Company has expanded their customer base into Ontario in 2022 and Ontario customers require the Company to have a higher amount of insurance coverage.
- The Company hired additional personnel in order to support growing operations resulting in salaries and benefits of \$388,969 (2021 - \$345,636).
- The Company incurred \$135,918 (2021 - \$129,048) in professional fees. The increase in professional fees mainly relates to legal fees and accounting and audit fees for the 2022 year end.
- The Company incurred \$79,393 (2021 - \$2,106) in licenses expenses. License expenses in the current period mostly relate to fees to the US customers border.

### For the year ended June 30, 2022 compared to the year ended June 30, 2021

During the year ended June 30, 2022, the Company had a net loss and comprehensive loss of \$5,240,058 (2021 – \$20,693,242) or \$0.05 loss per share (2021 – \$0.32), a decrease of \$15,453,184.

During the year ended June 30, 2022, the Company earned revenue of \$1,228,622 (2021 – \$102,113) for the sale of distillate and finished goods such as vapes and edibles as well as services provided for the processing of distillate. The increase in sales is due to the Company being in the early stages of operations in the comparable period and not having an entire fiscal year of sales.

During the year ended June 30, 2022, the Company incurred \$5,367,152 operating expenses (2021 – \$17,239,774) a decrease of \$11,872,622. This decrease was mainly due to the following:

- The Company recorded \$426,133 (2021 – \$8,200,020) in stock-based compensation during the year to recognize expense related to the vesting of options and performance securities granted during the third quarter of the current year and previous years. In the comparable period, stock-based compensation included amounts recognized for the vesting of both options and performance securities granted in the year.
- The Company incurred \$102,100 in advertising and promotion expenses during the year ended June 30, 2022 as compared to \$3,747,222 in the prior comparable year. The expenditures in the previous year were required for the attendance of various conferences to raise investor awareness and inform shareholders of new developments in the industry. The Company also incurred expenses for website development. Less expenses were required in the current year as the change in operations was already established in the prior year and the website was already fully developed.
- The Company incurred \$668,929 (2021 - \$1,178,148) in consulting fees during the year ended June 30, 2022. Expenses in the prior year are attributable to the completion of the RTO transaction, as well as consulting services required for business development and advisory services relating to cannabis products, licensing and machinery requirements. Expenses in the current year mainly relate to ongoing business development.

The decrease in spending discussed above were offset by the following:

## PURE EXTRACTS TECHNOLOGIES CORP.

- The Company paid \$157,347 (2021 - \$36,870) in licenses expenses. Licensing expenses increased in the current fiscal year due to the increase in cannabis operations, US customs border fees, and the expansion of sales across multiple provinces.
- The Company incurred \$207,553 (2021 - \$60,673) in insurance expenses. The Company has expanded their customer base into Ontario in 2022 and Ontario customers require the Company to have a higher amount of insurance coverage.
- The Company incurred \$133,132 (2021 - \$44,571) in travel and entertainment during the year ended June 30, 2022. The increase relates largely due to the ease of travel restrictions in place as a result of the Covid-19 pandemic during the previous fiscal year.

### (b) Summary of Quarterly Results

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	June 30, 2022	March 31, 2022	Dec 31, 2021	Sept 30, 2021	June 30, 2021	March 31, 2021	Dec 31, 2020	Sep 30, 2020
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	367,805	181,168	394,134	285,515	87,713	14,400	Nil	Nil
Net loss and comprehensive loss	1,256,906	1,543,598	984,379	1,455,175	2,450,673	6,318,223	11,057,925	866,421
Basic loss per share	0.01	0.01	0.01	0.02	0.32	0.20	0.20	0.11

In general, the Company's expenses have been decreasing over the last eight quarters. The Company experienced additional costs in the 2021 Q2 and 2021 Q3 due to costs associated with the Company's RTO and listing process. Since these quarters, expenses have decreased significantly as they have been mainly related to normal business operations. Costs related to the ramping up business operations have been mostly related to consulting fees, salaries and wages, advertising and promotion and professional fees.

During the quarter ended December 31, 2020, the net loss of \$11,057,925 is mainly made up of \$3,158,418 of Listing Expense related to the RTO and \$4,730,180 share-based compensation for the grants of options and performance securities.

During the quarter ended March 31, 2021, the net loss of \$6,318,223 is largely comprised of \$2,608,339 in share-based compensation and \$1,818,168 in advertising and promotion related to the Company's expenses for website development, and public and investor relations.

During the quarter ended June 30, 2021, the net loss of \$2,450,673 is largely comprised of \$783,348 in share-based compensation, \$354,987 in consulting fees relating to operations and \$215,519 in advertising and promotion related to the Company's expenses for website development, and public and investor relations.

During the quarter ended September 30, 2021, the net loss of \$1,455,175 is largely comprised of \$384,129 in salaries and benefits for increased employees with the increase in operations, \$209,788 in amortization of property and equipment and right-of-use assets, \$203,604 in inventory spoilage due to increased production operations, and \$170,936 in consulting costs.

## PURE EXTRACTS TECHNOLOGIES CORP.

During the quarter ended December 31, 2021, the net loss of \$984,379 is largely comprised of \$430,897 in salaries and benefits for increased employees with the increase in operations, \$185,448 in amortization of property and equipment and right-of-use assets, \$172,793 in consulting costs.

During the quarter ended March 31, 2022, the net loss of \$1,543,598 is largely comprised of \$397,198 in salaries and benefits for increased employees with the increase in operations, \$197,832 in amortization of property and equipment and right-of-use assets, \$190,559 in consulting costs and \$333,667 in share-based compensation as a result of the grant of options during the period. Additionally, the Company issued approximately \$114,000 in credits to a customer related to price reductions on products and inventory returns, which was offset against revenue.

During the quarter ended June 30, 2022, the net loss of \$1,256,906 is largely comprised of \$388,969 in salaries and benefits for increased employees with the increase in operations, \$157,592 in amortization of property and equipment and right-of-use assets, \$134,641 in consulting costs and \$135,918 in professional fees.

### **(c) Liquidity and Capital Resources**

At June 30, 2022, the Company had a working capital deficit of \$959,059 (2021 – working capital of \$2,268,758). Cash totaled to \$110,780 as at June 30, 2022 (2021 – \$1,629,383).

During the year ended June 30, 2022, the Company entered into a credit facility with Pivot Financial I Limited Partnership (‘the Creditor’) for an aggregate amount of \$1,225,000, available in two drawdowns. The first drawdown of \$975,000 on the date of closing and a second drawdown in the amount of \$250,000. The loan is subject to interest at 15% per annum and principal repayments of \$10,000 are due monthly. The loan matures one year from the date of closing (June 13, 2023). The loan is secured by the Company’s assets and revenues.

During the year ended June 30, 2022, the Company closed a private placement of 5,937,001 (2021 – 16,895,491) Special Warrants for net proceeds of \$388,595 (2021 - \$8,532,223). The net proceeds from the sale of the Special Warrants will be used to fund working capital, potential future acquisitions and capital expenditures. The Company does not have any specific proposed acquisitions planned at this time.

The Company had negative operating cash flow in its most recent financial years and may have negative operating cash flows in future periods. Available funds, including the net proceeds from any financings completed by the Company, may also be used in part to fund any negative cash flow from operations of the Company.

### **(d) Disclosure of Outstanding Share Data**

#### **Shares**

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

## PURE EXTRACTS TECHNOLOGIES CORP.

As of the date of this MD&A, the Company had 116,766,811 common shares issued and outstanding.

### Stock options

As of the date of this MD&A, the Company had 15,233,005 options outstanding. The following table summarizes the stock options outstanding and exercisable at as at the date of this MD&A:

<b>Number of options outstanding</b>	<b>Exercisable</b>	<b>Exercise price</b>	<b>Expiry date</b>
3,035,500	3,035,500	\$0.73	January 21, 2023
39,999	39,999	\$0.53	June 22, 2023
2,420,000	2,420,000	\$0.30	May 31, 2024
3,047,505	3,047,505	\$0.075	November 1, 2024
4,175,000	4,175,000	\$0.075	March 8, 2025
200,000	200,000	\$0.30	June 16, 2025
250,001	250,001	\$0.075	June 16, 2025
750,000	750,000	\$0.075	October 28, 2025
1,100,000	1,100,000	\$0.30	October 28, 2025
215,000	40,000	\$0.73	January 21, 2026

### Warrants

As of the date of this MD&A, there were 17,958,738 warrants outstanding. The following table summarizes the warrants outstanding and exercisable at as at the date of this MD&A:

<b>Number of warrants outstanding</b>	<b>Exercise price</b>	<b>Expiry date</b>
218,971	\$0.65	January 5, 2023
413,649	\$0.65	January 20, 2023
8,447,739	\$0.65	March 11, 2023
2,941,378	\$0.15	March 7, 2024
5,937,001	\$0.15	July 8, 2024

### Performance securities

As of the date of this MD&A, there were 4,582,000 performance securities outstanding with an exercise price of \$0.02 and expiring on October 16, 2025.

### (e) Commitment and Contingency

As at June 30, 2022 the Company's lease obligations were as follows:

Current portion	\$	231,718
Long-term portion	\$	681,501

Future minimum undiscounted lease payments outstanding under the Company's lease obligations as at June 30, 2022 are as follows:

PURE EXTRACTS TECHNOLOGIES CORP.

2023	288,913
2024	296,913
2025	268,913
2026	128,913
2027	64,456
<b>Total</b>	<b>\$ 1,048,108</b>

**(f) Off-Balance Sheet Arrangements**

None.

**(g) Transactions with Related Parties**

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. Related party transactions for the years ended June 30, 2022 and 2021 are as follows:

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

	June 30,	
	2022	2021
<b>Consulting fees</b>		
A Company controlled by Sean Bromley, a director of the Company	60,000	79,750
<b>Share-based compensation</b>		
Sean Bromley, a director of the Company	22,817	415,880
Sean DeWitt, a former director of the Company	\$ -	\$ 3,566,429

- ii) Key management compensation:

	June 30,	
	2022	2021
<b>Share-based compensation</b>		
Bentley Nikolaevsky, an officer of the Company	\$ 70,906	\$ 354,402
Andre Gauvin, an officer of the Company	22,817	74,276
Doug Benville, a director and officer of the Company	68,452	480,666
Yana Popova, an officer of the Company	22,817	440,195
Dwight Duncan, a director of the Company	31,167	-
<b>Management salaries and short-term benefits</b>		
Doug Benville, a director and officer of the Company	200,000	250,000
Bentley Nikolaevsky, an officer of the Company	240,000	300,000
Andre Gauvin, an officer of the Company	180,000	180,000

## PURE EXTRACTS TECHNOLOGIES CORP.

### Consulting fees

Yana Popova and Companies controlled by Yana Popova, an officer of the Company	\$	98,558	\$	134,000
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As at June 30, 2022, the Company has an amount owing to Doug Benville, the Chief Operating Officer, of \$200 (2021 - \$200). Included in accounts payable and accrued liabilities is an amount owing to Ben Nikolaevsky, the Chief Executive Officer, of \$654 (2021 - \$Nil), an amount owing to Yana Popova, the Chief Financial Officer, of \$8,494 (2021 - \$1,470), an amount owing to Sean Bromley, a director, of \$21,000 (2021 - \$Nil), and an amount owing to a legal firm affiliated with Dwight Duncan, a director of the Company, of \$365,252 (2021 - \$191,773).

As at June 30, 2022, the Company also has a loan receivable owing from Doug Benville, the Chief Operating Officer of the Company, in the amount of \$275,774 (2021 - \$401,208). The loan bears interest at 1% per annum and is due on demand.

### (h) Financial Instruments

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, and loans payable 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.

#### i) Foreign currency risk

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

#### ii) 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, 2022, the

## PURE EXTRACTS TECHNOLOGIES CORP.

Company recognized a recovery of a previously written off short-term loan receivable in the amount of \$50,000 (2021 – loan receivable write-off of \$427,087).

The Company has concentration of credit risk with respect to accounts receivable as large amounts of its accounts receivable are concentrated amongst a small number of customers. As at June 30, 2022, the Company has 69% (2021 – 100%) of its accounts receivable outstanding from four key customers.

The following table summarizes the amounts that make up accounts receivable:

	2022	2021
Accounts receivable	\$ 98,760	\$ 91,640
Allowance for doubtful accounts	(61,053)	-
Taxes receivable	78,806	127,144
Other receivable	70,694	-
	<u>\$ 187,207</u>	<u>\$ 218,784</u>

The following table summarizes the aging of accounts receivable as at June 30, 2022:

	Carrying amount	Current	31 – 60 Days	61 – 90 Days	> 90 Days
	\$	\$	\$	\$	\$
Accounts receivable	98,760	36,831	19,165	-	42,764

### iii) 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, 2022 in the amount of \$110,780 (2021 - \$1,629,383), in order to meet short-term liabilities of \$3,156,059 (2021 - \$1,017,239) and . 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, 2022. The Company's loan payable is due within 12 months of June 30, 2022. The Company's undiscounted cash flow commitments on the leases are disclosed in Note 14 of the Financial Statements.

### iv) 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 and loans payable.

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

**v) Management of capital risk**

The Company's capital is comprised of cash and amounts in shareholders' deficiency.

The Company manages the capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. There were no changes to the Company's approach to capital management since the year ended June 30, 2021 and the Company is not subject to any externally imposed capital requirements.

**6. Subsequent Events**

On July 8, 2022, 5,937,001 units were issued pursuant to the automatic conversion of special warrants. The units include one common share and one common share purchase warrant at an exercise price of \$0.15 for a period of two years from the date of conversion.

On August 16, 2022, 1,980,000 common shares were issued pursuant to the exercise of warrants for gross proceeds of \$99,000. As at June 30, 2022, these proceeds were already received by the Company and included in obligation to issue shares.

Subsequent to year-end on October 28, 2022, 6,142,492 warrants expired unexercised.