

# MANAGEMENTS DISCUSSION & ANALYSIS

3RD QUARTER END  
SEPTEMBER 30, 2022

ESG



# Introduction

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of September 30, 2022, and should be read together with the **HTC Pureenergy Inc. dba HTC Extraction Systems™** ("**HTC**" or the "**Corporation**") unaudited consolidated interim financial statements for the nine-month period ending September 30, 2022 (the "**Period**") and related notes attached thereto (collectively referred to as the "**Financial Statements**"), which are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are stated in Canadian dollars unless otherwise indicated. The Corporation has adopted National Instrument 51-102F1 as the guideline in representing the MD&A. Terms used but not defined in this MD&A shall bear the meaning as set out in Part 1 of National Instruments ("**NI**") 51-102 and NI 14-101 *Definitions* and accounting terms that are not defined herein shall bear the meaning as described or used in IFRS applicable to publicly accountable enterprises.

This MD&A is dated November 28, 2022.

## **FORWARD-LOOKING STATEMENTS DISCLAIMER**

Statements in this MD&A that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties that may cause the Corporation's actual results or outcomes to be materially different from those anticipated and discussed herein. In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in this MD&A and accompanying Financial Statements, and in those other filings with the Corporation's Canadian regulatory authorities as found at 'www.sedar.com' and to not put undue reliance on such forward-looking statements. Forward-looking statements in this MD&A include statements with respect to: the expected performance of the Corporation's business and operations and the Corporation's intentions to expand its business and operations; the Corporation's expectations regarding revenue, expenses and anticipated cash needs; the Corporation's plans to expand its extraction capabilities; the ability of the Corporation to meet consumer demand; the ability of the Corporation to execute on its strategic priorities and objectives; the size of the market that the Corporation operates in; the Corporation's business strategy for the extraction and purification of hemp biomass; the receipt of all necessary regulatory and other third-party approvals to conduct its CBD extraction operations; future processing expectations; the Corporation's ability to enter into new hemp biomass tolling agreements; and the Corporation's expectations regarding the future operations and objectives of KF Hemp Corp. Although **HTC's** management ("**Management**") believes that the expectations reflected in the forward-looking statements are reasonable, Management cannot guarantee future results, levels of activity, performance or achievements, or other future events. Forward-looking statements in this MD&A speak only as of the date on which they are made and Management is under no duty to update any of its forward-looking statements after the date of this MD&A, other than as required and governed by applicable securities laws.

Additional information related to the Corporation is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).

# Corporate Overview



**HTC Extraction Systems™** Group has developed proprietary extraction and purification systems, that have been designed to extract from biomass, liquids, and gas, as well as for the distillation and purification of ethanol and ethanol solvents, used for this extraction in the *Hemp-Biofibre/Protein/Plant Oil* business sector.

## HTC's Hemp - Biofibre/Protein/Plant Oil - Business Unit

**HTC's** business strategies include: the production contracting of broad acre industrial hemp for Biofibre for Bioplastics, Biochar and Cellulose, Hemp Seeds for Protein and Hemp Seed Oil, and cannabinoid extraction; as well as equity investments in Delta CleanTech Inc. ("**Delta**") and Starling Brands Inc. ("**Starling**").

Effective June 30, 2020, **HTC** acquired KF Hemp Corp. ("**HempCo**"), a company that is qualified to cultivate, process, dry, store and sell hemp under the Industrial Hemp Regulations of the *Cannabis Act (Canada)* ("**Hemp License**"). **HempCo** owns hemp shredding, handling, drying, sizing and sorting equipment, which have been installed in its hemp processing facility, located in Lajord, Saskatchewan.

## *Investments in ESG companies*

### Delta CleanTech Inc.

The Corporation owns a minority interest of Delta, the proprietor of 17-year old, ESG driven, recognized global technology IP, and leader in Carbon Credit Origination and Aggregation, through CO<sub>2</sub> Capture & Decarbonization of Energy, Blue Hydrogen Production, and Methane Collection & Destruction. Delta continues to provide solutions to clients all over the world in capturing, sequestering, and reducing CO<sub>2</sub>, while producing high quality fungible Carbon Credits.

Delta has shown leadership in the compliance and voluntary carbon offset market through its extensive origination and aggregation experience in CO<sub>2</sub> capture, landfill and oilfield methane destruction and zero tillage agricultural carbon credits.

## SELECTED ANNUAL INFORMATION

In Canadian Dollars	Year ending Dec 31, 2021	Year ending Dec 31, 2020	Year ending Dec 31, 2019
<b>Total Revenue</b>	737,847	-	200,385
<b>Loss from Operations</b>	(775,521)	(1,746,057)	(1,683,957)
<b>Gain (Loss) from asset disposition, valuation and impairment adjustments</b>	(3,590,074)	(32,381,121)	(1,621,437)
<b>Net (Loss)</b>	(4,623,663)	(34,405,455)	(5,518,038)
<b>Loss per share, basic and diluted</b>	(0.02)	(0.22)	(0.08)
<b>Loss per share from continued operations, basic and diluted</b>	(0.04)	(0.19)	(0.025)
<b>Comprehensive Net Income (Loss)</b>	(4,408,894)	(34,410,273)	(5,602,036)
<b>Total Assets</b>	7,652,435	11,135,149	46,739,123
<b>Total Long-Term Financial Liabilities</b>	6,814,187	5,594,108	12,312,926
<b>Increase (Decrease) in Cash</b>	(83,666)	(4,999,156)	3,623,775
<b>Cash Dividends Declared per-share</b>	NIL	NIL	NIL

## DISCUSSIONS OF HTC'S QUARTER END FINANCIAL RESULTS

In Canadian Dollars (other than share amounts)	3 months ending Sept. 30, 2022 Unaudited	3 months ending Sept. 30, 2021 Unaudited	3 months ending Jun. 30, 2022 Unaudited	3 months ending Jun. 30, 2021 Unaudited	3 months ending Mar. 31, 2022 Unaudited	3 months ending Mar. 31, 2021 Unaudited	3 months ending Dec. 31, 2021 Audited	3 months ending Dec. 31, 2020 Audited
<b>Total Revenues</b>	8,500	6,485	105,570	70,000	143,461	319,490	341,872	-
<b>Net Income (Loss) from Operations</b>	(199,780)	109,095	(230,740)	(537,370)	(336,452)	(454,119)	126,163	(28,684,277)
<b>Net Income (Loss)</b>	(275,951)	(409,846)	(593,866)	(1,228,741)	(609,574)	2,055,971	(5,041,758)	(35,402,855)
<b>Total Assets</b>	4,992,282	12,540,155	6,659,432	12,912,842	7,383,064	13,903,092	7,652,435	11,135,149
<b>Long Term Liabilities</b>	6,461,912	6,064,925	7,059,019	5,938,680	6,945,515	5,737,180	6,814,187	5,594,108
<b>Shareholders' Equity</b>	(3,853,026)	2,641,980	(3,577,075)	5,479,427	(3,031,946)	6,598,396	(2,370,634)	4,289,144
<b>Cash Flow from Operations</b>	(107,043)	(224,158)	(397,125)	(101,653)	137,169	(182,761)	(366,940)	17,618,908
<b>Increase (Decrease) in Cash</b>	49,738	(27,532)	(140,998)	(16,118)	33,049	(124,237)	(30,470)	(2,866)
<b>Net Income (Loss), in total, on a per-share basis<sup>1</sup> (See discussion below)</b>	0.00	0.00	0.00	0.00	0.00	0.01	(0.02)	(0.22)
<b>Net Income (Loss), in total, on a diluted per-share basis</b>	0.00	0.00	0.00	0.00	0.00	0.01	(0.02)	(0.21)
<b>Weighted Average Common Shares</b>	206,973,741	206,973,741	206,973,741	206,973,741	206,973,741	206,973,741	206,983,741	159,088,563

-2020 and 2021 comparative amounts have been reclassified to consider the impact of the sale of Delta and Kase

-Net Income (Loss) per common share for the periods has been calculated using the weighted average number of common shares outstanding during the respective periods.

## PER SHARE AMOUNTS

Basic net income (loss) per common share has been calculated using the weighted average number of common shares outstanding. At the end of the Period there were 206,983,741 common shares outstanding (December 31, 2021 – 206,983,741).

Amounts stated in Canadian Dollars	For the period ending Sep. 30, 2022	For the year ending Dec. 31, 2021
Net Income (Loss) per common share – basic and fully diluted	(0.01)	(0.02)

Fully diluted earnings per share is not presented when there is a loss as the impact would be anti-dilutive. The diluted shares for the Period are 210,466,928.

Comparative figures have been reclassified to consider the impact of the sale of Kase Farma Inc. (“**Kase**”), the discontinuation of Kase operations, and the spinout of the clean energy assets to Delta.

## REVENUES

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2022	3 months ending Sep. 30, 2021	YTD ending Sep. 30, 2022	YTD ending Sep. 30, 2021
<b>Total Revenues</b>	\$8,500	\$6,485	\$257,531	\$396,115

The table above reflects the year to date (“**YTD**”) revenues reported and also revenues reported in three-month periods ending September 30, 2022 and September 30, 2021. Revenue reported in the three-month period is reflective of consulting revenue compared to inventory sales in the corresponding three-month period.

## OPERATING EXPENSES

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2022	3 months ending Sep. 30, 2021	YTD ending Sep. 30, 2022	YTD ending Sep. 30, 2021
<b>Commercialization, Product Development &amp; Administration</b>	\$129,398	\$(43,623)	\$513,344	\$631,381

The table above reflects commercialization, product development and administration expenses reported for the YTD and for the three-month periods ending September 30, 2022 and September 30, 2021. The 2022 YTD decrease reflects reductions in staff components and tightening up of other operating expenditures in the comparative period. The prior year three-month period change is reflective of expense recoveries during the period.

## AMORTIZATION

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2022	3 months ending Sep. 30, 2021	YTD ending Sep. 30, 2022	YTD ending Sep. 30, 2021
<b>Amortization</b>	\$78,882	\$130,017	\$267,854	\$824,582

Amortization reported for the YTD ending September 30, 2022 and September 30, 2021 are \$267,854 and \$824,582 respectively. Amortization reported for the three-month periods ending September 30, 2022 and September 30, 2021 is \$78,882 and \$130,017 respectively. The amortization change is a result the property plant and equipment impairment recorded, otherwise of typical deviations.

## FINANCE INCOME (EXPENSES)

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2022	3 months ending Sep. 30, 2021	YTD ending Sep. 30, 2022	YTD ending Sep. 30, 2021
<b>Finance expenses</b>	\$80,314	\$76,757	\$190,293	\$210,458

Finance expenses realized for the YTD ending September 30, 2022 and September 30, 2021 are \$190,293 and \$210,458 respectively. Interest increased in relation to accretion, and IFRS 16 lease liabilities that recharacterized monthly rental payments to loan repayment and interest. Long term loan finance expenses decreased during the period as a result of partial debt settlement. Other income recorded of \$40,000 is representative of forgiveness of debt on the Canada Emergency Business Account due December 31, 2023. Other income reported reduces total finance expenses during the Period.

## OPERATING LOSS

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2022	3 months ending Sep. 30, 2021	YTD ending Sep. 30, 2022	YTD ending Sep. 30, 2021
<b>Operating loss</b>	\$199,780	\$85,684	\$766,972	\$1,077,032

The Corporation reports an operating loss at September 30, 2022 of \$766,972 compared to \$1,077,032 for the period ending September 30, 2021. 2022 has recorded reduced losses compared to same period in 2021 due to reduced commercialization, product development and administration expenses as a result of tightening up operations and reduced staffing components, and reduced amortization expenses reported in the Period.

## NET INCOME OR LOSS

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2022	3 months ending Sep. 30, 2021	YTD ending Sep. 30, 2022	YTD ending Sep. 30, 2021
<b>Operating income or loss</b>	\$(275,951)	\$(409,136)	\$(1,482,392)	\$418,094

Net loss for the Period is \$1,482,392 compared to net income at September 30, 2021 of \$418,094. 2022 loss includes \$190,293 finance expenses and proportionate loss from equity investments in Delta of \$511,668. 2021 income includes a gain on sale of the clean energy assets to Delta of \$2,848,459, loss on discontinued operations in Kase of \$625,866 and proportionate loss from equity investments in Delta of \$850,985.

## **TOTAL ASSETS**

Total assets as at the end of the Period were \$4,992,282 compared to \$7,652,435 as at December 31, 2021. The decrease is attributable to reduced cash as a result of settlement of debts, reduced accounts receivable balances in the Period as a result of settlement received from customers, reduced inventory from sales transactions and decreased balances reported on investments in associates as a result of the associates reported results and divestment of investments.

## **CURRENT LIABILITIES**

Total current liabilities are \$2,383,396 as at the end of the Period as compared to \$3,208,882 as at December 31, 2021. The decrease is due to timing of payables and accrued liabilities, reduction in non-cash dividend-in-kind payable and realised portions of lease liabilities. When considering current liabilities that result in cash, balances are \$1,008,892 and \$970,996 respectively.

## **LONG TERM LIABILITIES**

The Corporation reported long term liabilities as at the end of the Period of \$6,461,912 (December 31, 2021 – 6,814,187). The decrease is related to partial settlement of long-term debts offset by customer deposits received, accretion recorded to promissory note and interest expenses incurred during the Period.

## **SHAREHOLDERS' EQUITY**

As at the end of the Period, shareholders' equity is \$(3,853,026) as compared to shareholders' equity of \$(2,370,634) at December 31, 2021. The change in shareholder's equity is attributed to net loss reported during the Period.

## **CASH FLOW**

Cash flows used in operating activities were \$(366,999) for the Period, compared to \$(508,574) for September 30, 2021. Negative cash flow is attributable to timing of payables and accrued liabilities, settlement of lease liabilities and debts offset by increased government receivables.

## **CHANGE IN CASH POSITION**

The change in cash position during the Period was \$(58,113) and \$(167,887) at September 30, 2021. Cash position change in the prior period is specific to operations.

## CAPITAL RESOURCES

### Share capital:

Authorized:

An unlimited number of common shares

An unlimited number of preferred shares

At September 30, 2022 and December 31, 2021, the Corporation had authorized an unlimited number of common shares and an unlimited number of preferred shares without par value. Common shares are voting, participating and are not subject to restrictions. At Period end, 206,983,741 common shares (December 31, 2021 – 206,983,741) were issued and outstanding.

On January 28, 2020, **HTC** announced the issuance of 8,000,000 units and 2,000,000 bonus units at a price of \$0.20 per unit, as part of the purchase of Kase. Each unit consist of one common share and one half of one common share purchase warrant of **HTC**. Each warrant is exercisable to acquire one common share at a price of \$0.70 for a period of 36 months from the completion of the transaction. Each bonus unit consists of one common share and on half of one common share bonus purchase warrant of **HTC**. Each bonus warrant is exercisable to acquire one common share at a price of \$1.00 for a period of 36 months from the completion of the transaction. In addition, the units and bonus units (collectively, the “**Compensation Units**”) are subject to legends restricting their transfer and which will provide that (i) one-third of the Compensation Units shall become freely tradeable on the date that is 12 months following the completion of the transaction; (ii) one-third of the Compensation Units shall become freely tradeable on the date that is 18 months following the completion of the transaction; and (iii) one-third of the Compensation Units shall become freely tradeable on the date that is 24 months following the completion of the transaction. The warrants value has been determined using a Black Scholes model and recognized in contributed surplus (see Note 16 of the Financial Statements).

**HTC** paid compensation to an arm’s length party, in the form of 620,000 units, at a price of \$0.20 per unit, for the development, negotiation and finalization of the ancillary agreements to the Kase acquisition. Each unit also consists of one common share and one half of one common share purchase warrant of **HTC**. The warrants value has been determined using a Black Scholes model and recognized in contributed surplus (see Note 16 of the Financial Statements).

Effective June 30, 2020, the Corporation issued 95,000,000 shares valued at \$0.095 per share as part of the acquisition of **HempCo**. All common shares issued pursuant to the acquisition, were subject to hold periods under a Corporation imposed pooling agreement. These restrictions lifted in 3 even tranches, October 31, 2020, February 28, 2021, and September 30, 2021.

### Stock options and warrants:

The Corporation has a stock option plan for directors, officers, employees, and consultants providing for the issuance of options to acquire up to ten percent of the issued and outstanding

common shares of the Corporation. The following table reflects the stock option activity from March 26, 2019 through September 30, 2022 and the weighted average exercise price:

	As at Sep. 30, 2022		As at Dec. 31, 2021	
	Options	Avg. Price	Options	Avg. Price
Outstanding, and exercisable, beginning of year	3,483,187	\$ 0.075	3,483,187	\$ 0.075
Stock options issued	-	-	-	-
Outstanding and exercisable, end of year	3,483,187	\$ 0.075	3,483,187	\$ 0.075

On March 26, 2019, the Corporation issued 3,483,187 stock options. Each stock option entitles the holder to purchase one common share of **HTC** at \$0.075 per common share until March 25, 2029. The fair value of the common share options granted was estimated at the grant date using an option pricing model and valued at \$249,762.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility considers the historical volatility of the Corporation's shares and any other features of the option grant that may impact the measurement of fair value such as market conditions. Change in the subjective input assumptions can materially affect the fair value estimate.

On January 28, 2020, **HTC** announced the issuance of 8,000,000 units and 2,000,000 bonus units as part of the purchase of Kase. Each unit consist of one common share and one half of one common share purchase warrant of **HTC**. Each warrant is exercisable to acquire one common share at a price of \$0.70 for a period of 36 months from the completion of the transaction. Each bonus unit consists of one common share and on half of one common share bonus purchase warrant of **HTC**. Each bonus warrant is exercisable to acquire one common share at a price of \$1.00 for a period of 36 months from the completion of the transaction. In addition, the Compensation Units are subject to legends restricting their transfer and provide that (i) one-third of the Compensation Units shall become freely tradeable on the date that is 12 months following the completion of the transaction; (ii) one-third of the Compensation Units shall become freely tradeable on the date that is 18 months following the completion of the transaction; and (iii) one-third of the Compensation Units shall become freely tradeable on the date that is 24 months following the completion of the transaction. Warrants valued at \$329,491 have been recorded in contributed surplus.

**HTC** paid an arm's length party, compensation in the form of 620,000 units, for the development, negotiation, and finalization of the ancillary agreements to the Kase acquisition. Each unit also consists of one common share and one half of one common share purchase warrant, exercisable at a price of \$0.70 for 36 months. Warrants valued at \$23,552 have been recorded in contributed surplus.

The Corporation incurred share issuance costs at September 30, 2022 of \$Nil that have been capitalized (September 30, 2021 - \$Nil) in connection with the transactions described above.

The Black Scholes model is used to estimate the fair value of warrants. The Corporation recognizes warrants as an increase to contributed surplus based on the following assumptions:

Date Granted	January 28, 2020
Number of warrants granted	4,310,000
Exercise price	\$0.70
Risk free interest rate	1.44%
Expected dividend yield	NIL
Expected stock price volatility	101.56%
Expected option life in years	3
Estimated forfeiture before exercise	0%
Weighted average fair value of warrants granted	\$0.08
Date Granted	January 28, 2020
Number of warrants granted	1,000,000
Exercise price	\$1.00
Risk free interest rate	1.44%
Expected dividend yield	NIL
Expected stock price volatility	101.56%
Expected option life in years	3
Estimated forfeiture before exercise	0%
Weighted average fair value of warrants granted	\$0.08

Volatility is determined based on the 12 months of the Corporation's historical trading volume before the issuance date.

The total fair value of stock options granted to directors, employees and consultants and related companies of the Corporation and warrants issued through private placement as at September 30, 2022 was \$353,043 (December 31, 2021 was \$353,043).

## OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

Related party transactions include transactions with corporate investors who have representation on the Corporation's Board.

During the Period, the Corporation paid \$795 (September 30, 2021 - \$10,357) for legal services from a law firm that a director is a partner of. As of September 30, 2022, there are \$666 amounts owing to the law firm (September 30, 2021 - \$6,438).

KF Kambeitz Farms Inc. ("**KF Farms**") is considered a related party due to one common director. As a result of the acquisition of **HempCo**, there is a loan payable to KF Farms of \$4,165,456 (December 31, 2021- \$4,787,639). In order to settle the KF Farms loan, in part, on

August 3, 2022, **HempCo** sold its 985,263 common share interest in HumaTerra Regen Ag. Inc. (previously acquired for \$492,632) to KF Farms, for the FMV and purchase price of \$788,210.

KF Aggregates Recycling Inc. is considered a related party due to one common director. At September 30, 2022, there are amounts outstanding of \$400,835 from prior years aggregate purchases (December 31, 2021 - \$400,835) included in accounts payable and accrued liabilities.

KFHP is a related party due to one common director. On December 30, 2021, **HTC** and KFHP entered into an asset sale agreement whereby **HTC** would sell a 27,000 square foot cold storage building ("**Facility**") to KFHP for fair market value of \$1,190,000 as determined by an independent appraiser. At September 30, 2022, **KFHP** had paid a total deposit on the purchase of the building in the amount of \$768,332 (December 31, 2021 - \$500,000) and will continue to pay the balance in 18 equal monthly installments until the purchase price is satisfied at which time title will transfer. Title is expected to transfer on or before June 30, 2023. **HTC** holds an option to buy the building and the land at FMV for a period of 10 years, with a further 10-year extension period for the cost of \$25,000.

**HTC** entered into a 5-year lease agreement to lease the abovementioned facility with KFHP commencing January 1, 2022, with an option to renew for an addition 5-year term. Annual lease payments payable to **KFHP** are \$101,150 or \$8,429 monthly.

Purely Canada Terminals Corp. ("**PCT**") is a related party due to one common director. **HTC** acquired a loan from PCT during 2021 for \$250,000 plus interest (see Note 12). At September 30, 2022, there are amounts outstanding of \$269,921 to PCT (September 30, 2021 - \$250,000).

These transactions were all conducted in the normal course of business.

## **CRITICAL ACCOUNTING ESTIMATES**

IFRS 15 impacts how revenues are recognized and require estimates regarding the evaluation of income to consider rent elements, guarantee elements and income estimates as well as the recognition of guaranteed recognition into Income.

The Corporation annually performs an impairment analysis on PPE by comparing the carrying value of each CGU containing the assets to its recoverable amount. The Corporation utilized the market approach to calculate the fair value of the recoverable amount of the assets whereby the carrying value was compared to comparable market sales transactions including bid and ask prices and completed sales of comparable equipment. The impairment charge is recorded in the Consolidated Statement of Loss.

Where the fair values of financial assets are recorded on the consolidated statement of financial position cannot be derived from active markets they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values.

## Details of non-wholly owned subsidiaries with material non-controlling interest:

The portion of net assets and net loss attributable to **Oroverde Genetics Corp.** (“**Oroverde**”) third party shareholders is reported as non-controlling interests and net loss attributable to non-controlling interests on the Consolidated Statements of Financial Position and Consolidated Statements of Loss respectively. Non-consolidated details of the revenue and expenses associated with **Oroverde** are summarized above. Additional information is as follows:

	<b>Oroverde</b>	<b>Oroverde</b>
	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Total current assets	\$ -	\$ -
Total current liabilities	776,523	751,159
	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Loss	\$ Nil	\$ (11,149)

## DIRECTOR AND OFFICER COMPENSATION

The key management personnel of the Corporation consist of the executive officers, vice-president, other senior managers, and members of the Board. Key management personnel include those persons that have the authority and responsibility for planning, directing, and controlling the activities of the Corporation, directly or indirectly.

During the Period, the Corporation paid director compensation in the amount of \$250 (September 30, 2021- \$4,000) for the attendance of Board and committee meetings. In addition, the three senior managers were paid a total salary of \$16,500 during the Period.

## ADDITIONAL INFORMATION ON HTC

**HTC** invites you to review current and historical press releases and News Express releases. This material can be viewed on the Corporation’s web site at <https://htcextraction.com/news-releases/>.

## RISKS AND UNCERTAINTIES

The preparation of the Financial Statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the Period.

Significant items subject to judgment, estimates and assumptions include: revenue recognition (judgments on principal versus agent relationship, the identification of performance obligations within contracts, and estimation of the allocation of transaction price to different performance obligations), non-financial asset impairment, inventory provision, underlying estimations of useful lives of depreciable assets, fair value of financial instruments, the utilization of deferred tax assets, environmental remediation and contingent liabilities, if any, and inputs used in Black-Scholes valuation model.

The Financial Statements are based on Management's best estimates using information available. Uncertainty regarding the timing of anticipated large-scale market demand for carbon capture technology, related legislative incentives, and uncertainty in financial markets has complicated the estimation process. Accordingly, the inherent uncertainty involved in making estimates and assumptions may impact the actual results reported in future years by a material amount.

## **CHANGES IN ACCOUNTING PRINCIPLES**

### **Standards issued but not yet effective**

#### *Amendments to IAS 1 - Presentation of Financial Statements ("IAS 1")*

In January 2020, amendments were issued to IAS 1, which provide requirements for classifying liabilities as current or non-current. Specifically, the amendments clarify:

- what is meant by a right to defer settlement;
- that a right to defer must exist at the end of the reporting period;
- that classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

The amendments must be applied retrospectively for annual periods beginning after January 1, 2023. The Corporation will assess the impact, if any, of adoption of the amendment.

#### *Amendments to IAS 8: Definition of Accounting Estimates*

In February 2021, the IASB published "Definition of Accounting Estimates" to help entities to distinguish between accounting policies and accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.

The amendments are not expected to have a material impact on the Corporation.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply prospectively.

## **CAPITAL DISCLOSURES**

There are no restrictions on the Corporation's capital. The Corporation's capital is summarized as follows:

	<b>Sep. 30, 2022</b>	<b>Dec. 31, 2021</b>
Shareholders' equity	\$ (3,853,026)	\$ (2,370,634)
Current portion of lease liability	5,335	32,540
Lease liability	49,686	49,686
Long term debt	4,576,640	5,249,048
Promissory note	1,067,254	1,015,453
<b>Balance</b>	<b>\$ 1,845,889</b>	<b>\$ 3,976,093</b>

The Corporation's objectives when managing capital are to:

- maintain financial flexibility in order to preserve its ability to meet financial obligations;
- deploy capital to provide an appropriate investment return to its shareholders in the future; and
- maintain a capital structure that allows multiple financing options to the Corporation, should a financing need arise.

The Corporation's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, raise debt (secured, unsecured, convertible and/or other types of available debt instruments) or refinance existing debt with different characteristics.

## FINANCIAL INSTRUMENTS

Management's risk management policies are typically performed as a part of the overall management of the Corporation's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Corporation is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Corporation has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Corporation, Management considers the avoidance of undue concentrations of risk. These risks and the actions taken to manage them include the following:

### Liquidity risk

Liquidity risk is the risk that the Corporation cannot meet its financial obligations associated with financial liabilities in full. The Corporation's main sources of liquidity are its operations and equity financing. The funds are primarily used to finance working capital and capital expenditure requirements and are adequate to meet the Corporation's financial obligations associated with financial liabilities. Risk associated with debt financing is mitigated by having negotiating terms over several years and renegotiating terms before they are due.

The timing of cash outflows relating to the financial liabilities are outlined in the table below:

<b>Sep. 30, 2022</b>	<b>&lt; 1 year,</b>	<b>1-2 years</b>	<b>3-5 years</b>	<b>Thereafter</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 797,364	\$ -	\$ -	\$ -	\$ 797,364
Lease liability	4,489	53,934	-	-	58,423
Long term debt	-	4,576,640	-	-	4,576,640
Promissory note	-	1,113,300	-	-	1,113,300
<b>Balance</b>	<b>\$ 801,853</b>	<b>\$ 5,743,874</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,545,727</b>

  

<b>Dec. 31, 2021</b>	<b>&lt; 1 year,</b>	<b>1-2 years</b>	<b>3-5 years</b>	<b>Thereafter</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 732,264	\$ -	\$ -	\$ -	\$ 732,264
Lease liability	34,114	53,934	-	-	88,048
Long term debt	-	5,249,048	-	-	5,249,048
Promissory note	-	1,113,300	-	-	1,113,300
<b>Balance</b>	<b>\$ 766,378</b>	<b>\$ 6,416,282</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,182,660</b>

### Currency risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Corporation has no significant transactions denominated in foreign currency and is not exposed to any material foreign currency risk, aside from broad unquantifiable macro-economic factors arising from fluctuations in foreign exchange, which could result in Canadian products becoming more expensive to international purchasers.

### Foreign exchange risk

Foreign exchange risk is primarily associated with contracts for services and contracts of supplies and services. Substantially all the Corporation's revenues and expenses are denominated in Canadian dollars, and therefore isolated from foreign exchange risk.

### Interest rate risk

Interest rate risk primarily is associated with interest fluctuations earned on the Corporation's cash and marketable securities and paid on long-term debt. The Corporation mitigates exposure by attempting to match rates and terms to expected cash requirements. Interest risk associated with long term loans is mitigated by arranging terms that extend for multiple years (see Note 12 to the Financial Statements). A 1% change in the prime interest rate would have a negligible impact on the Corporation's income.

### Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial transaction fails to meet its obligations. The Corporation attempts to reduce such exposure to its cash and marketable securities by only investing in low-risk investments with Canadian Chartered Banks and taking advantage of government guarantees. The Corporation attempts to reduce its loss on amounts receivable by assessing the ability of the counterparties to fulfill their obligation under contract prior to entering into the contracts and by the nature of customers the Corporation deals with. At September 30, 2022, the Corporation had an allowance for doubtful accounts of \$131,435 (December 31, 2021- \$131,435).

Due to project-based nature of the Corporation's operations, management considers accounts receivable outstanding less than 90 days to be current amounts. Over 90 days are also considered current, if extended terms exist and security is provided, or amounts are subject to contract restrictions and performance markers. The aging of the Corporation's accounts receivable at September 30, 2022 and December 31, 2021 is as follows:

	Current	Over 90 Days	Total
Aging of accounts receivable at Sep. 30, 2022	\$ 43,446	\$95,657	\$139,123
Aging of accounts receivable at Dec. 31, 2021	\$154,862	\$ 9,249	\$164,111

## WORKING CAPITAL

Working capital requirements typically reflect the seasonality of a Corporation. Collectability of receivables and long-term customer deposits obtained and expected play a large part in the ability to meet current liabilities.

## COMMITMENTS AND CONTINGENCIES

The Corporation rents office facilities on a month-to-month basis under a lease agreement with KF Capital Corp., with minimum monthly rental payments of \$1,496.

The Corporation rents equipment under a lease agreement from a third-party supplier with bi-annual payments of \$8,079.

**HTC** is engaged in a license dispute with one of its CO<sub>2</sub> capture technology providers. The court expects the provider to settle the case in favour of **HTC**. **HTC** is currently negotiating the settlement amount to be paid to **HTC**.

**HTC** entered into a 5-year lease agreement to lease a facility with KFHP commencing January 1, 2022, with an option to renew for an addition 5-year term. Annual lease payments payable to KFHP are \$101,150 or monthly \$8,429.

## SUBSEQUENT EVENTS

Effective October 31, 2022, the remaining dividend in kind shares were issued to shareholders' whose shares were held by **CDS** and **DTC**. Effectively, on this date, **HTC**'s interest in Delta is 13.6%.

Signed "Lionel Kambeitz"  
**LIONEL KAMBEITZ**  
 CHAIRMAN & CEO

Signed "Jacelyn Case"  
**JACELYN CASE**  
 CFO

**HTC PUREENERGY INC.**  
*‘doing business as’*  
**HTC EXTRACTION SYSTEMS**

**To the Shareholders of HTC Pureenergy Inc. (the “Corporation”)**

**Management’s Accountability for Management’s Discussion and Analysis and Financial Statements**

The unaudited condensed consolidated interim financial statements for the period ended September 30, 2022 (“**Period**”) (“**Financial Statements**”) have been prepared by management in accordance with International Financial Reporting Standards (“**IFRS**”) in Canada. Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgment, are consistent with other information and operating data contained in management’s discussion and analysis for the Period (“**MD&A**”) and reflect the Corporation’s business transactions and financial position.

Management is also responsible for the information disclosed in the MD&A including responsibility for the existence of appropriate information systems, procedures, and controls to ensure that the information used internally by management and disclosed externally is complete and reliable in all material respects.

In addition, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that the Corporation’s assets are appropriately accounted for and adequately safeguarded.

The board of directors (“**Board**”) annually appoints an audit committee which includes directors who are not employees of the Corporation. This committee meets regularly with management and the shareholders’ auditors to review significant accounting, reporting and internal control matters. The shareholders’ auditors have unrestricted access to the audit committee. The audit committee reviews the interim and annual financial statements, the report of the shareholders’ auditors, and the interim and annual management’s discussion and analysis and has delegated authority to approve the interim filings and makes recommendations to the Board regarding annual filings.

Management has reviewed the filing of the Corporation’s MD&A, Financial Statements, and attachments thereto. Based on our knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, with respect to the period covered by the interim filings. Based on our knowledge, having exercised reasonable diligence, the Financial Statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance, and cash flows of the Corporation, as of the date of and for the periods presented in the interim filings.

Signed “Lionel Kambeitz”  
**LIONEL KAMBEITZ**  
**CHAIRMAN & CEO**

Signed “Jacelyn Case”  
**JACELYN CASE**  
**CFO**

# BOARD OF DIRECTORS & SENIOR OFFICERS

## Of the Corporation as at September 30, 2022

<b>Directors:</b>	<p>Lionel Kambeitz, Regina, Saskatchewan,</p> <p>Jeffrey Allison, Calgary, Alberta</p> <p>Wayne Bernakevitch, Regina, Saskatchewan,</p> <p>Garth Fredrickson Regina, Saskatchewan.</p>
<b>Senior Officers:</b>	<p>Lionel Kambeitz, Chairman and CEO Jeffrey Allison, Sr. Vice-President Jacelyn Case, Chief Financial Officer</p>
<b>Committees of the Board of Directors:</b>	<p>Audit Committee Compensation Committee Nominating Committee</p>
<b>Members of Audit Committee:</b>	<p>Lionel Kambeitz, Garth Fredrickson and Wayne Bernakevitch</p>
<b>Members of Compensation Committee:</b>	<p>Jeffrey Allison and Wayne Bernakevitch</p>
<b>Members of Nominating Committee:</b>	<p>Jeffrey Allison and Wayne Bernakevitch</p>

# SHAREHOLDER INFORMATION

**Stock exchange:** TSX Venture Exchange Inc.

**Stock symbol:** HTC

**Common Shares outstanding as of September 30, 2022:** 206,983,741

**Head office and Investor relations address:**

**HTC PUREENERGY**  
 #002 – 2305 Victoria Avenue  
 Regina, Saskatchewan S4P 0S7  
 Telephone: (306) 352-6132  
 Fax: (306) 545-3262  
 E-mail: [investorinfo@htcextraction.com](mailto:investorinfo@htcextraction.com)

## Sales and Marketing Offices

**Canada:**  
 Regina, Sask.  
 Calgary, Alberta

## Registrar and Transfer Agent:

Odyssey Trust Company  
 1230, 300 – 5th Avenue S. W.  
 Calgary, Alberta T2P 3C4

**Banks:** RBC

**Auditors:** PKF Antares, Calgary, AB

**Legal Counsel:** McDougall Gauley, Barristers and Solicitors, Regina Saskatchewan

**Borden Ladner Gervais LLP, Barristers and Solicitors, Calgary**  
 Alberta

**McKercher LLP Barristers & Solicitors, Regina Saskatchewan**

## Dividend policy:

Dividends were declared on the common shares of the Corporation, and it is anticipated that dividends will be paid in the immediate or foreseeable future.

## Duplicate Communications:

Some shareholders may receive more than one copy of the annual report and proxy-related material. This is generally due to ownership of registered shares in addition to non-registered shares; holding shares in more than one account; or purchasing shares from more than one stock brokerage firm. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should notify the investor relations department at the above address.