



MANAGEMENT DISCUSSION AND ANALYSIS

3RD QUARTER ENDING
SEPTEMBER 30, 2021



Introduction

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of September 30, 2021, and should be read together with the **HTC Pureenergy Inc. dba HTC Extraction Systems™** ("**HTC**" or the "**Corporation**") unaudited, condensed, consolidated, interim financial statements for the nine-month period ending September 30, 2021 (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 25, 2021.

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. and Kase Farma Inc. 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.

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/CBD* business sector.

HTC's Hemp - Biofibre/Protein/Cannabinoid 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 HumaTerra Regen AG Inc. ("**HumaTerra**")

By implementing its historical skillsets, process design and standard operating procedures ("**SOPs**"), **HTC** wishes to develop into a large hemp biofibre supplier, hemp seed seller and oil processor and cannabinoid extractor and refiner. In order to accomplish its objectives, the Corporation intends to leverage its relationships with successful farming leaders and draw on SOPs, best practices in genetics, fertility, fibre processing, seed cleaning and processing including experience required in ingredient sales with multi-year contracts.



KF Hemp Corp.

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, and boasts agreements with local growers pursuant to which these growers will produce IPGrow™ (identity preserved) Industrial Hemp. The growers will select ideal ground for hemp production and implement the optimal fertility package and crop protection program for high yielding biofibre, hemp seeds and high cannabinoid hemp flower biomass.



Hemp Biofibre

HTC has completed the construction of its approximately 27,000 square foot hemp biofibre processing and storage facility, which will be utilized for the processing of biofibre into bioplastic pellets and biochar/hemp soil fertility pellets, as well as the storing and packaging of extraction-ready biomass.

Hemp Biomass Tolling Agreements

HTC is currently engaged in tolling contracts with US-based hemp biomass producers and providers. Extraction, at the **Kase Farma Inc.** ("**Kase Farma**" or "**Kase**") location in Ceres, California has moved into commercial production. **HTC** will look to ensure tolling and processing volumes by selecting qualified harvest contractors, utilizing diversified growing locations and high-performance regulated genetics, and through irrigation that can provide growing locations with an opportunity for 2 to 3 annual crop rotations with new CBD, CBG, CBN and other cannabinoid genetic varieties.

California-based, Kase Farma Inc. – <http://KaseFarma.com>

On January 28, 2020, **HTC** completed a share and purchase agreement (“**SPA**”) with Starling Brands Inc. (“**Starling**”), whereby **HTC** acquired all the issued and outstanding shares of California based **Kase Farma**. **Kase Farma** is authorized to operate in the areas of hemp extraction, refining, formulation, and distribution in the State of California.

An intrinsic part of the acquisition is a management services agreement with Starling, led by Mike Reynolds, chief executive officer, and Drew Ford, chief science officer, both of whom are highly regarded experts in the cannabinoid extraction, formulation and refining industry.

Kase Farma has received and commissioned equipment that is capable of processing and distilling 10,000 lbs. per day of dried biomass at its extraction operation in California. **Kase Farma’s** extraction operations are part of the Starling-owned 22,000-square-foot overall facility. **Kase Farma** has launched its Identity Preserved, or IPGrow™, initiative, for the wholesale and retail markets, under the brand of “**Kase One - One Life; One Plant**”. In addition, **Kase Farma** has aligned itself with highly regarded hemp growers in California’s Central Valley who will provide high performance, IPGrow™, superior, genetic specific production for its custom designed cannabinoid formulations.

Starling owned Kase Manufacturing Inc., is one of the first volatile and non-volatile cannabinoid extraction manufacturing labs approved in the State of California. As part of the acquisition, **Kase Farma** has entered into an intellectual property licensing agreement with Starling that allows for a technology transfer whereby Starling’s intellectual property and technology licensed under this agreement can be utilized and deployed at the **HTC** facilities in Saskatchewan.



Investments in ESG companies

HumaTerra Regen AG Inc.

HumaTerra provides a natural and profitable solution for both conventional and organic farmers. They restore the soil’s fertility with the help of microbial organisms harvested from composted organic waste and recycled by-products.

The Corporation’s 18% investment in HumaTerra and its regenerative soil biologicals for the agriculture sector is proving to be timely and certainly shows tremendous promise. HumaTerra is entering its first year of scaled up commercial production of its soil biologicals for the 2022 crop year. The fundamentals of the business and the opportunity for growth are substantial.

Delta CleanTech Inc.

HTC owns 34% of Delta, the proprietor of 15-year old, ESG driven, recognized global technology IP, and leader in Carbon Credit Origination and Aggregation, through CO2 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 CO2 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 CO2 capture, landfill and oilfield methane destruction and zero tillage agricultural carbon credits.

SELECTED ANNUAL INFORMATION

In Canadian Dollars	Year ending Dec 31, 2020	Year ending Dec 31, 2019	Year ending Dec 31, 2018
Total Revenue	24,983	2,415,438	861,424
Loss from Operations	(33,400,248)	(4,100,918)	(3,511,525)
Gain (Loss) from asset disposition, valuation and impairment adjustments	(31,195,951)	393,051	(1,449,449)
Net Income (Loss)	(34,405,456)	(5,518,038)	(4,019,633)
Loss per share, basic and diluted	(0.22)	(0.08)	(0.12)
Loss per share from continued operations, basic and diluted	(0.19)	-	-
Comprehensive Net Income (Loss)	(34,410,274)	(5,602,036)	(4,051,594)
Total Assets	11,135,149	46,739,123	34,070,462
Total Long-Term Financial Liabilities	5,594,108	12,312,926	7,665,319
Increase (Decrease) in Cash	(4,999,156)	3,623,775	425,201
Cash Dividends Declared per-share	NIL	NIL	NIL

DISCUSSIONS OF HTC's QUARTER END FINANCIAL RESULTS

In Canadian Dollars (other than share amounts)	3 months ending Sept. 30, 2021 Unaudited	3 months ending Sept. 30, 2020 Unaudited	3 months ending Jun. 30, 2021 Unaudited	3 months ending Jun. 30, 2020 Unaudited	3 months ending Mar. 31, 2021 Unaudited	3 months ending Mar. 31, 2020 Unaudited	3 months ending Dec. 31, 2020 Audited	3 months ending Dec. 31, 2019 Audited
Total Revenues	6,485	6,559	70,644	1,175	324,136	29,274	16,996	(868,534)
Net Income (Loss) from Operations	(405627)	(1,317,520)	(642,235)	(493,278)	(737,617)	(932,704)	(31,250,634)	(1,109,008)
Net Income (Loss)	(409,136)	(1,077,767)	(1,144,407)	3,340,658	2,026,294	(1,265,498)	(35,402,855)	(1,155,658)
Total Assets	12,540,155	49,030,386	12,912,842	48,982,191	13,903,092	50,059,030	11,135,149	46,739,123
Long Term Liabilities	6,064,925	5,583,820	5,938,680	4,620,772	5,737,180	13,153,023	5,594,108	12,312,926
Shareholders' Equity	2,641,980	33,999,677	5,479,427	35,032,665	6,598,396	30,702,477	4,289,144	29,383,628
Cash Flow from Operations	(224,158)	(18,855,460)	(101,653)	2,094,588	(182,761)	(26,724)	17,618,908	3,091,533
Increase (Decrease) in Cash	(27,532)	(275,062)	(16,118)	(890,711)	(124,237)	(3,652,322)	(2,866)	2,964,722
Net Income (Loss), in total, on a per-share basis¹ (See discussion below)	(0.00)	(0.007)	(0.00)	0.03	0.01	(0.01)	(0.22)	(0.01)
Weighted Average Common Shares	206,973,741	164,248,686	206,973,741	112,320,829	206,973,741	104,664,630	159,088,563	95,594,510

-2019 and 2020 comparative amounts have been restated to consider the impact of the sale of Maxx Group and Delta

-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, 2020 – 206,983,741).

Amounts stated in Canadian Dollars	For the period ended Sep. 30, 2021	For the year ended Dec. 31, 2020
Net Income (Loss) per common share – basic and fully diluted	0.00	(0.22)

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 restated to consider the impact of the sale of **Maxx Group of Companies Corp.** and its subsidiaries (“**Maxx Group**”), discontinuation of the **Maxx Group** and the spinout of the **Delta CleanTech** business unit.

REVENUES

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2021	3 months ending Sep. 30, 2020	YTD ending Sep. 30, 2021	YTD ending Sep. 30, 2020
Total Revenues	\$6,485	\$6,813	\$401,265	\$7,988

The table above reflects the change in nine-month periods ending September 30, 2021, and September 30, 2020. Revenue reported in the Period is reflective of \$389,490 consulting revenue, \$5,290 sales generated from CBD product sales and \$6,485 sales generated from hemp bale sales, compared to \$2,031 consulting revenue and \$5,957 CBD product sales in the corresponding period in the previous year. The three-month period change year over year is reflective of increased consulting and hemp inventory sales during the third quarter ending September 30, 2021.

OPERATING EXPENSES

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2021	3 months ending Sep. 30, 2020	YTD ending Sep. 30, 2021	YTD ending Sep. 30, 2020
Commercialization, Product Development & Administration	\$(36,888)	\$532,195	\$791,300	\$1,479,070

The table above reflects the three-month and nine-month change in net operating expenses as at September 30, 2021 and September 30, 2020. The 2021 decrease reflects a reduction in staff components and tightening up of other operating expenditures whereas the corresponding period reflects increased expenses incurred due to the acquisition and development of **Kase Farma** and **HempCo**. The three-month change in the current year reflects recovery of expenses from settlement of debt.

AMORTIZATION

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2021	3 months ending Sep. 30, 2020	YTD ending Sep. 30, 2021	YTD ending Sep. 30, 2020
Amortization	\$407,167	\$445,135	\$1,314,901	\$625,487

Amortization for the Period was \$1,314,901 (September 30, 2020 – \$625,487) and \$407,167 for the 3-month period ending September 30, 2021 (September 30, 2020 - \$445,135). The increase in amortization relates to increases in right-of-use asset and commissioned assets in **Kase Farma** and **HempCo** in the last half of 2020.

FINANCE EXPENSES

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2021	3 months ending Sep. 30, 2020	YTD ending Sep. 30, 2021	YTD ending Sep. 30, 2020
Finance expenses	\$76,576	\$34,160	\$226,648	\$57,299

Finance expenses realized during the Period were \$226,648 (September 30, 2020 - \$57,299) and \$76,576 for the three-month period ending September 30, 2021 (September 30, 2020 - \$34,160). Interest increased in relation to accretion and loan interest.

INTEREST AND OTHER INCOME

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2021	3 months ending Sep. 30, 2020	YTD ending Sep. 30, 2021	YTD ending Sep. 30, 2020
Interest and other income	\$(76,581)	\$(5)	\$37,634	\$134,406

The table above reflects the nine and three-month interest and other income earned at September 30, 2021 and September 30, 2020. During the Period the Corporation recorded interest earned on short and long-term investments of \$4,628, unrealized gains on investment of \$10,018 which are due to market fluctuations of held-for trading investments, realized gains resulting from leased liabilities \$13,373 and realized gains on exchange of \$9,614 during the Period.

OPERATING LOSS

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2021	3 months ending Sep. 30, 2020	YTD ending Sep. 30, 2021	YTD ending Sep. 30, 2020
Operating loss	\$(369,569)	\$(971,840)	\$(1,724,482)	\$(2,097,892)

The Corporation had an operating loss during the Period of \$1,724,482 as compared to \$2,097,892 for the nine-month period ending September 30, 2020, and losses of \$369,569 for the 2021 three-month period ended and \$971,840 in 2020. 2021 has seen increased revenues compared to limited revenues in 2020. The Period is also reflective of decreased commercialization, product development and administration costs offset by increased amortization.

NET INCOME OR LOSS

Amounts stated in Canadian Dollars	3 months ending Sep. 30, 2021	3 months ending Sep. 30, 2020	YTD ending Sep. 30, 2021	YTD ending Sep. 30, 2020
Operating income or loss	\$(409,136)	\$(1,077,767)	\$418,094	\$997,399

The net income for the Period is \$418,094 compared to net income of \$997,399 at September 30, 2020. 2021 income includes a gain on sale of the clean energy assets to **Delta** of \$2,843,858, and **HTC's** proportionate loss on the **Delta's** second quarter results of \$(850,985). The current three-month period shows a loss of \$409,136 compared to a loss in the corresponding period in 2020 of \$1,077,767. The change is reflective of operational loss, discontinued operations and unrealized gain on fair value growth on biological assets reported in the prior period.

TOTAL ASSETS

Total assets for the Period were \$12,540,155 compared to \$11,135,149 as at December 31, 2020. The increase is primarily attributable to the investment in **Delta** as a result of the clean energy assets spinout transaction.

CURRENT LIABILITIES

Current liabilities are \$3,719,350 for the Period as compared to \$1,251,897 as at December 31, 2020. The increase is due to timing of payables and accrued liabilities and dividends-in-kind declared during the Period. Dividends-in-kind are non-cash and expected to be paid within the next twelve months, as such are classified as current.

LONG TERM LIABILITIES

The Corporation reported long term liabilities for the Period of \$6,064,925 (December 31, 2020 – 5,594,108) The increase is related to additional leased liabilities and increased debts during the Period.

SHAREHOLDERS' EQUITY

As at the end of the Period, shareholders' equity is \$2,755,880 as compared to shareholders' equity of \$4,289,144 at December 31, 2020. The change in shareholder's equity is attributed to income reported during the Period offset by the dividend declared during the Period.

CASH FLOW

Cash flows used in operating activities were \$(508,574) for the Period, compared to \$(16,787,596) for September 30, 2020. In 2020 negative operating cash flows were attributable to the acquisition of Hemp inventory. Negative operating cash flows are attributable to commercialization, product development and administration and finance expenses in the Period. The three-month current period reflects cashflows used in operating activities of \$(224,158) versus \$(18,855,460) in the comparative 2020 period.

CHANGE IN CASH POSITION

The change in cash position was \$(167,887) at September 30, 2021 and \$(4,996,290) at September 30, 2020. September 30, 2020 period ending cash outflows were pertaining to the acquisition of **Kase Farma** that were not incurred in the current Period. Cash position change in the current Period and the 3-month comparable period is specific to operations.

CAPITAL RESOURCES

Share capital:

Authorized:

An unlimited number of common shares

An unlimited number of preferred shares

At December 31, 2020 and 2019, 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. As at December 31, 2020, 206,983,741 common shares (December 31, 2019 – 101,363,741) 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** (see Note 31 to the Financial Statements). 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 18 to 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 (see Note 17 of the Financial Statements). 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 18).

Effective June 30, 2020, the Corporation issued 95,000,000 shares valued at \$0.095 per share as part of the acquisition of **HempCo** (see Note 17 of the Financial Statements). All common shares issued pursuant to the acquisition, are restricted from trading, under a Corporation imposed pooling agreement, with restrictions lifting in 3 even tranches, October 31, 2020, February 28, 2021, and June 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 December 31, 2020 and the weighted average exercise price:

	As at Sep. 30, 2021		As at Dec. 31, 2020	
	Options	Avg. Price	Options	Avg. Price
Outstanding, and exercisable, beginning of period	3,483,187	\$ 0.075	3,483,187	\$ 0.075
Stock options issued	-	\$ -	-	\$ -
Outstanding and exercisable, end of period	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.

Date Granted	March 26, 2019
Number of options granted	3,483,187
Weighted average share price	\$0.10
Risk free interest rate	1.45%
Expected dividend yield	NIL
Expected stock price volatility	85.01%
Expected option life in years	5
Estimated forfeiture before exercise	0%
Weighted average fair value of options granted	\$0.07

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 Farma. 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.

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 Farma** 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.

The Corporation incurred share issuance costs at September 30, 2021 of \$Nil (December 31, 2020 - \$178,800) 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	.46%
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	\$0.54

Date Granted	January 28, 2020
Number of warrants granted	1,000,000
Exercise price	\$1.00
Risk free interest rate	.46%
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	\$0.54

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, 2021 was \$353,042 (December 31, 2020 - \$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 \$10,357 (September 30, 2020 - \$15,578) for legal services from a law firm that a director is a partner of. As of September 30, 2021, there are \$6,438 amounts owing to the law firm (December 31, 2020 - \$Nil).

Delta is a related party due to common directors. On January 27, 2021, **Delta** announced it had completed a spin-out transaction comprising **HTC's** existing clean energy business (the "**Clean Energy Assets**") to **Delta** for an aggregate Purchase Price of \$4,000,000 pursuant to the Asset Purchase Agreement dated January 27, 2021. The Clean Energy Assets consist of all of the intellectual property and certain contractual agreements for the operation of **HTC's** CO₂ capture systems and reclaimer systems, which was the "Delta" business unit of **HTC**.

During the Period, the Corporation charged \$370,000 to **Delta** for consulting and fees incurred for the private placement. As of September 30, 2021 there are \$Nil amounts owing from **Delta** (September 30, 2020 - \$Nil).

KF Kambeitz Farms Inc. ("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 **Farms** of \$4,625,162 (December 31, 2020 - \$4,261,578).

KF Aggregates Recycling Inc. is considered a related party due to one common director. At September 30, 2021 there are amounts outstanding of \$400,835 from aggregate purchases (December 31, 2020 - \$400,835) included in accounts payable and accrued liabilities.

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 guarantee recognition into Income.

INTANGIBLE ASSETS

Intangible assets subject to amortization	CO2	Kase	HempCo	Total
Cost				
Balance at Dec. 31, 2019	\$ 1,099,600	\$ -	\$ -	\$ 1,099,600
Additions	-	3,690,633	78,850	3,769,483
Disposition of Assets	(1,099,600)	-	-	(1,099,600)
Impairment	-	(2,514,485)	-	(2,514,485)
Balance at Dec. 31, 2020	-	1,176,148	78,850	1,254,998
Balance at Sep. 30, 2021	\$ -	\$ 1,176,148	\$ 78,850	\$ 1,254,998
Accumulated amortization				
Balance at Dec. 31, 2019	\$ 941,380	\$ -	-	\$ 941,380
Amortization for the year	33,306	324,192	27,829	385,326
Disposition of assets	(974,686)	-	-	(974,686)
Balance at Dec. 31, 2020	\$ -	\$ 324,192	\$ 27,829	\$ 352,020
Amortization for the period	-	245,000	41,745	286,745
Balance at Sep. 30, 2021	\$ -	\$ 569,192	\$ 69,574	\$ 638,765
Carrying amounts (by operating segment)				
	CO2	Kase	HempCo	Total
Balance at Dec. 31, 2019	\$ 158,220	\$ -	\$ -	\$ 158,220
Intangible additions	-	3,690,633	78,850	3,769,483
Amortization	(33,306)	(324,192)	(27,829)	(385,327)
Disposition of assets	(124,914)	-	-	(124,914)
Impairment	-	(2,514,485)	-	(2,514,485)
Balance at Dec. 31, 2020	\$ -	\$ 851,956	\$ 51,021	\$ 902,977
Amortization	-	(245,000)	(41,744)	(286,744)
Balance at Sep. 30, 2021	\$ -	\$ 606,956	\$ 9,277	\$ 616,233

CO₂ intangibles relate to **Delta CleanTech** division disposed of January 2021.

Kase Farma additions are comprised of intellectual capital acquired as part of the acquisition.

HempCo additions are comprised of costs incurred in license applications acquired as part of the acquisition.

Management performed an analysis of the existence of indicators of impairment for intangible assets at December 31, 2020. No indicators of impairment were noted that would necessitate an evaluation for an impairment write-down of intangible assets during the year ended December 31, 2020.

Geographic Revenues – U.S. Operations

Kase Farma operates out of Ceres, California and makes up the U.S. operations. The following describes the material foreign revenues and non-current assets of **Kase Farma**.

Kase - U.S. Operations	Sep. 30, 2021	Jun. 30, 2020
CBD sales	\$ 5,290	\$ -
Total revenues	\$ 5,290	\$ -
Non-current assets:	Sep. 30, 2021	Dec. 31, 2020
Equipment	\$ -	\$ 118,729
Accumulated amortization	-	(17,065)
	\$ -	\$ 101,664
Leasehold improvements	\$ -	\$ 102,301
Accumulated amortization	-	(8,734)
	\$ -	\$ 93,567
Right of use asset-Lease	\$ 272,914	\$ 272,914
Accumulated amortization	(170,571)	(136,457)
	\$ 102,343	\$ 136,457
Intangible assets	\$ 3,690,633	\$ 3,690,633
Impairment	(2,514,485)	(2,514,485)
Accumulated amortization	(569,191)	(324,192)
	\$ 606,957	\$ 851,956
Total non-current assets	\$ 709,300	\$ 1,183,644

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:

	Oroverde	Oroverde
	September 30, 2021	December 31, 2020
Total current assets	\$662,040	\$662,040
Total current liabilities	-	-
	September 30, 2021	September 30, 2020
Loss	\$(3,827)	\$(254)

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.

HTC entered into 3- and 4-year corporate management consulting agreements in January 2019, with 2 executive managers. Under the terms, **HTC** can terminate the agreements at any time. These agreements were terminated April 1, 2020 and new employment contracts were entered into. Jeff Allison's employment contract ended December 1, 2020, and Lionel Kambeitz employment contract terminated February 1, 2021. During the 9-month period ending September 30, 2021, total employment compensation paid to Lionel Kambeitz was \$11,458.

During the Period, the Corporation paid director compensation in the amount of \$4,000 (September 30, 2020 - \$2,500) for the attendance of Board and committee meetings. In addition to their salaries, senior management and directors also participate in the Corporation's share-based compensation plans.

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

Risks and uncertainties relate to dependence of CO₂ emitters being legislated or provided incentive, to adapt CO₂ capture technology and the price of oil for adoption of CO₂ EOR. For **Kase Farma**, risk relates primarily with regulators and customer product acceptance.

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

Future Changes to Accounting Standards

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 IFRS 3 Business Combinations - Reference to the Conceptual Framework

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising from liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments to IFRS 3 apply to annual reporting periods beginning on or after January 1, 2022. The Corporation is currently assessing the impact of the amendments.

CAPITAL DISCLOSURES

The Corporation defines its capital as its shareholders' equity and long-term debt. There are no restrictions on the Corporation's capital.

The Corporation's capital is summarized as follows:

	Sep. 30, 2021	Dec. 31, 2020
Shareholders' equity	\$2,755,880	\$4,305,083
Current portion of lease liability	114,438	172,906
Lease liability	188,426	188,621
Long term debt	4,864,149	4,459,102
Promissory note	1,012,350	946,385
Balance	\$8,935,243	\$10,072,097

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:

Sep. 30, 2021	< 1 year,	1-2 years	3-5 years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 1,411,807	\$ -	\$ -	\$ -	\$ 1,411,807
Lease liability	107,302	64,937	80,921	41,762	294,922
Long term debt	-	4,864,149	-	-	4,864,149
Promissory note	-	-	1,012,350	-	1,012,350
Balance	\$ 1,519,109	\$ 4,929,086	\$ 1,093,271	\$ 41,762	\$ 7,583,228

Dec. 31, 2020	< 1 year,	1-2 years	3-5 years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 1,028,005	\$ -	\$ -	\$ -	\$ 1,028,005
Lease liability	172,906	37,323	25,960	125,338	361,527
Long term debt	-	4,459,102	-	-	4,459,102
Promissory note	-	-	946,385	-	946,385
Balance	\$ 1,200,911	\$ 4,496,425	\$ 972,345	125,338	\$ 6,795,019

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. With the exception of **Kase Farma** operations, 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. With the exception of **Kase Farma** operations, 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 15 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, 2021, the Corporation had an allowance for doubtful accounts of \$131,435 (December 31, 2020- \$128,000).

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, 2021 and December 31, 2020 is as follows:

	Current	Over 90 Days	Total
Aging of accounts receivable at Sep. 30, 2021	\$34,655	\$14,048	\$48,703
Aging of accounts receivable at Dec. 31, 2020	\$14,550	\$10,452	\$25,002

WORKING CAPITAL

Working capital requirements typically reflect the seasonality of a Corporation. **HTC's** sale of inventory has began to turn in Q3 of 2021 with cash collections occurring in Q4 2021 and continuing into Q1 2022. The continued downward pressure in the hemp market has contributed to slower moving inventory into the early quarters of 2021. The continuation of the COVID-19 pandemic may impact the Corporation's working capital requirements.

COMMITMENTS AND CONTINGENCIES

The Corporation rents office facilities on a month-to-month basis under a lease agreement with KF Group of Companies with minimum monthly rental payments of \$2,201.

HTC is engaged in a license dispute with one of its CO₂ capture technology providers. The commercial effect and outcome of this license technology dispute cannot be determined at this time. On September 14, 2017 and May 10, 2019, the Court of Queen's Bench of Saskatchewan, in a summary judgement, awarded preliminary cost recoveries to **HTC**.

HTC's subsidiary **Kase Farma** currently leases production space for its facility for \$9,000 USD per month.

SUBSEQUENT EVENTS

Dividend

HTC previously announced on August 6, 2021, that its Board has approved the issuance of a special dividend-in-kind (the “**Dividend**”) of 12,000,000 of the 20,000,000 common shares of Delta held by **HTC**. On October 18, 2021, it was further announced that the Dividend will be payable on or before January 10, 2022 to holders of record of common shares of **HTC** at the close of business on August 13, 2021.

Litigation

On October 29, 2021, **HTC** announced that it expects to bring a motion to dismiss all, alternatively a motion to strike parts of the action filed against it (“**Claim**”), pursuant to a hemp product sales engagement entered into in 2020. **HTC** is also investigating the merits of launching counterclaims and third-party claims against the applicants and other third-parties for any losses and damages suffered.

COVID-19

Subsequent to the Period, there was a continued global outbreak of the novel strain of coronavirus, specifically identified as “**COVID-19**”, which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on **HTC** and its subsidiaries as this will depend on future developments that are *highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, the Corporation anticipates this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Corporation’s business and financial condition.*

Signed “Lionel Kambeitz”

LIONEL KAMBEITZ
CHAIRMAN & CEO

Signed “Jeffrey Allison”

JEFFREY ALLISON
SR. VICE- PRESIDENT & 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, 2021 (“**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
CHIEF FINANCIAL OFFICER

BOARD OF DIRECTORS & SENIOR OFFICERS

Of the Corporation as at September 30, 2021

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

SHAREHOLDER INFORMATION

Stock exchange: TSX Venture Exchange Inc. and Frankfurt Exchange

Stock symbol: TSXV:HTC; FRA:UUI; OTCQB: HTPRF

Common Shares outstanding as of September 30, 2021: 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

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, Scotiabank

Auditors: Manning Elliot, Vancouver, BC

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

Gowling WLG, Calgary Alberta

Dividend policy:

No dividends have been paid on any common shares of the Corporation since the date of inception. See Subsequent Events for more information on dividends.

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.